

Your Ref.  
Our Ref

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Date 07 February 2019

Merran McRae - Chief Executive

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Typetalk calls welcome

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

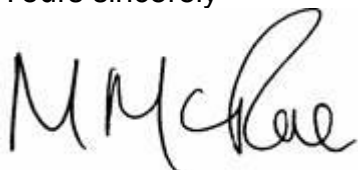
Dear Member

**YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 15 FEBRUARY 2019**

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, 15 February 2019 in the YPO Headquarters** to consider the items set out in the agenda attached.

Please note that a training session entitled 'Quality Initiatives Training' will take place prior to the meeting at 10am.

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, 15 February 2019

## AGENDA

1. Acceptance of Apologies for Absence.
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 2nd November 2018. (Pages 1 - 3)
6. Annual Governance Statement & Local Code of Corporate Governance. (Pages 5 - 33)
7. Pre-Audit Statement of Accounts. (Pages 35 - 76)
8. Internal Audit Annual Report 2018. (Pages 77 - 85)
9. Internal Audit Plan Update. (Pages 87 - 94)
10. External Audit Plan. (Pages 95 - 119)
11. Gifts & Hospitality. (Pages 121 - 123)
12. Financial Procedure Rules and Standing Orders relating to Contracts. (Pages 125 - 142)
13. Internal Audit Action Update. (Pages 143 - 144)
14. Exclusion of the Public and Press  
“That the public and press be excluded from the meeting during consideration of agenda items 15 - 18 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

15. IT Programme Update (Link). (Pages 145 - 146)
16. Risk Registers. (Pages 147 - 170)
17. Stock Adjustments. (Pages 171 - 174)
18. Options for Automatic Sprinklers. (Pages 175 - 182)
19. Date of next meeting.

*The next meeting is to be held on 24<sup>th</sup> May 2019.*

**YORKSHIRE PURCHASING ORGANISATION****AUDIT & SCRUTINY SUB-COMMITTEE****FRIDAY, 2<sup>ND</sup> NOVEMBER 2018****Present:** The Chair: Councillor Warburton (Bradford)

Councillors: Vjestica (Rotherham), Wiseman (St Helens), Warburton (Bradford), Barnard (Barnsley), Scullion (Calderdale), Cuthbertson (York), Dadd (North Yorkshire).

<b>65.</b>	<b>CHAIR'S INTRODUCTION &amp; WELCOME</b>
	Councillor Warburton welcomed all parties to the meeting.
<b>66.</b>	<b>ACCEPTANCE OF APOLOGIES FOR ABSENCE</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Graham (Wakefield), Nightingale (Doncaster), Walsh (Knowsley), Mistry (Bolton), Carter (Calderdale), Asif (Kirklees), Rehman (Wigan).
<b>67.</b>	<b>MEMBERS DECLARATION OF INTEREST</b>
	No declarations of interest were made.
<b>68.</b>	<b>URGENT ITEMS</b>
	No urgent items were raised by Members.
<b>69.</b>	<b>PREVIOUS MINUTES (AUDIT &amp; SCRUTINY SUB COMMITTEE)</b>
	The minutes of the YPO Audit & Scrutiny Sub-Committee held on 25 <sup>th</sup> May 2018 were approved by all.
<b>70.</b>	<b>INTERNAL AUDIT PLAN TEMPLATE 2018</b>
	Members gave consideration to a report produced by the Service Manager for Internal Audit & Risk, the purpose of which is to provide Members with information relating to the next annual Internal Audit Plan.
	The report outlines what progress has been made, the planning process and also includes details of potential auditable areas.
	Members raised questions and were satisfied with the responses given by Officers.
	<b>Resolved</b> – (1) That the report be noted.
<b>71.</b>	<b>YEAR END CLOSEDOWN TIMETABLE</b>
	Consideration was given to a report of the Head of Finance which informed Members of the contents of the 2018 Closedown Timetable.
	<b>Resolved</b> – (1) That the Year End Closedown Timetable and plan be noted.

<b>72.</b>	<b>APPOINTMENT OF AUDITORS</b>
	<p>The Executive Director, Paul Smith presented a report informing Members of the appointment of auditors for 2018, this is the final year of the contract and a tender process will be carried out during 2019 to appoint an external auditor for the 2019 financial year and beyond.</p> <p><b>Resolved</b> – (1) That Members note the appointment of the external auditors KPMG.</p>
<b>73.</b>	<b>EXCLUSION OF THE PUBLIC AND PRESS</b>
	<p><b>Resolved</b> – That the public and press be excluded from the meeting during consideration of agenda items 10 to 13 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p>
<b>74.</b>	<b>IT PROGRAMME UPDATE (LINK) (EXEMPT – PARAGRAPH 3)</b>
	<p>Consideration was given to the report of the Head of Business Change &amp; IT which provided Members with an update on the current project dossier.</p> <p>The report summarised the implementation status of the ERP (Enterprise Resource Planning) System. Members were informed that the Board review the activity and progress on a monthly basis at the Programme Board Meeting.</p> <p>Members raised a number of questions in relation to timescales and were satisfied with the responses given by Officers.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>75.</b>	<b>WAREHOUSE &amp; LOGISTICS STRATEGY (EXEMPT – PARAGRAPH 3)</b>
	<p>Consideration was given to a report &amp; presentation given by the Head of Logistics regarding the Logistics Strategy.</p> <p>This report provided an update on progress made on the 2018 - 2020 strategy. 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.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>76.</b>	<b>RISK MANAGEMENT UPDATE</b>
	<p>Members considered a report of the Executive Director which recommends deferring the reporting of the Risk Management Policy &amp; Strategic Framework and Strategic Risk Register to the Audit &amp; Scrutiny Sub-Committee to February 2019.</p> <p>The report provided Members with a progress update on property insurance</p>

	and risk survey. <b>Resolved</b> – (1) That the report be noted.  (2) That Risk Management Policy & Strategic Framework and Strategic Risk Register will be brought to the Audit & Scrutiny Sub-Committee on 15 <sup>th</sup> February 2019 for full review.  (3) That an options appraisal in relation to YPO’s Business Continuity Plan be submitted to the Audit and Scrutiny Sub-Committee on 15 <sup>th</sup> February.
<b>77.</b>	<b>RISK APPETITE</b>  The Audit and Scrutiny Sub-Committee discussed YPO’s risk appetite and how it influences YPO’s risk management arrangement and how this affects future strategic decisions.  <b>Resolved</b> – (1) That the discussion held by Members be noted.
<b>78.</b>	<b>DATE AND TIME OF NEXT MEETING</b>  <b>Resolved</b> – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee is proposed to be held on 15 <sup>th</sup> February 2019.

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**YPO**  
**AUDIT & SCRUTINY SUB-COMMITTEE**  
**TO BE HELD ON**  
**15<sup>TH</sup> FEBRUARY 2019**

**TITLE: ANNUAL GOVERNANCE STATEMENT 2018 & LOCAL CODE OF GOVERNANCE**  
**REPORT OF: DEPUTY MANAGING DIRECTOR**

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**1. BACKGROUND INFORMATION**

- 1.1 This report presents the first draft of the Annual Governance Statement (AGS) 2018 for consideration and the fully revised Local Code of Corporate Governance 2019. In December 2017 YPO Board agreed a report outlining significant changes to move much of the detailed description of the governance framework from the AGS into the Local Code of Governance, with the aim of making the AGS a much shorter, strategic document written in a more readable, accessible and informative style. This was a two stage approach with the changes initially made to the published AGS 2017.
- 1.2 In December 2018 YPO Board received a report outlining changes to the Local Code to complete the second stage of this process. As this work included a detailed review of YPO's governance arrangements, it was proposed, and agreed, that this would effectively meet the requirements to carry out the Board Assurance process for 2018 and therefore no separate report on this will be published this year.

**2. STRATEGIC IMPLICATIONS**

- 2.1 YPO's Local Code of Corporate Governance and AGS are key documents that help us to demonstrate our commitment to good governance.

**3. FINANCIAL/RESOURCE IMPLICATIONS**

- 3.1 There are no financial implications arising from this report.

**4. LEGAL IMPLICATIONS**

- 4.1 There are no legal implications arising from this report: YPO continues to meet the requirements of the 2016 Governance Framework.

**5. RISK IMPLICATIONS**

- 5.1 There are no risk implications arising from this report.

**6. CONSULTATION**

6.1 The Head of Finance has been consulted on this report.

**7. OPTIONS APPRAISAL**

7.1 YPO could continue to publish a Local Code of Corporate Governance and AGS in the existing formats.

**8. RECOMMENDATIONS**

8.1 The Board receive the first draft of the revised format Annual Governance Statement 2018 and the Local Code of Corporate Governance 2019 Update for discussion and agreement.

**9. REASONS FOR RECOMMENDATIONS**

9.1 The proposed changes will result in more informative, more readable documents that meet the 2016 Governance Framework's requirements to reflect the ethos of good governance and not just the rules and procedures.

**SERVICE DIRECTOR: PAUL SMITH, DEPUTY MANAGING DIRECTOR**

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**APPENDICES**

*Appendix 1: Annual Governance Statement 2018 First Draft*  
*Appendix 2: Local Code of Corporate Governance 2019*

## Annual Governance Statement 2018

### Scope of Responsibility

YPO is responsible for ensuring that its 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. YPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

YPO acknowledges its responsibility for putting in place proper and effective governance arrangements. YPO has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the 2016 CIPFA / SOLACE Framework Delivering Good Governance in Local Government. A copy of YPO's [Local Code](#) is available on our website [www.ypo.co.uk](http://www.ypo.co.uk) or can be obtained by telephoning 01924 834984.

YPO must conduct a review, at least once a year, of the effectiveness of its systems of internal control and report the findings in an Annual Governance Statement. This Statement has been prepared in accordance with the proper practices set out in the CIPFA / SOLACE Framework. It explains how YPO has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2015, Regulation 6 which requires all relevant bodies to prepare an Annual Governance Statement.

### The Governance Framework

Governance is about ensuring that we do the right things, at the right time, in the right way, for the right people in an open, transparent, honest and accountable manner.

YPO's governance framework comprises the systems and processes, culture and values by which we direct and control the organisation, engage with, and remain accountable to, our owners and other key stakeholders. It enables YPO to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

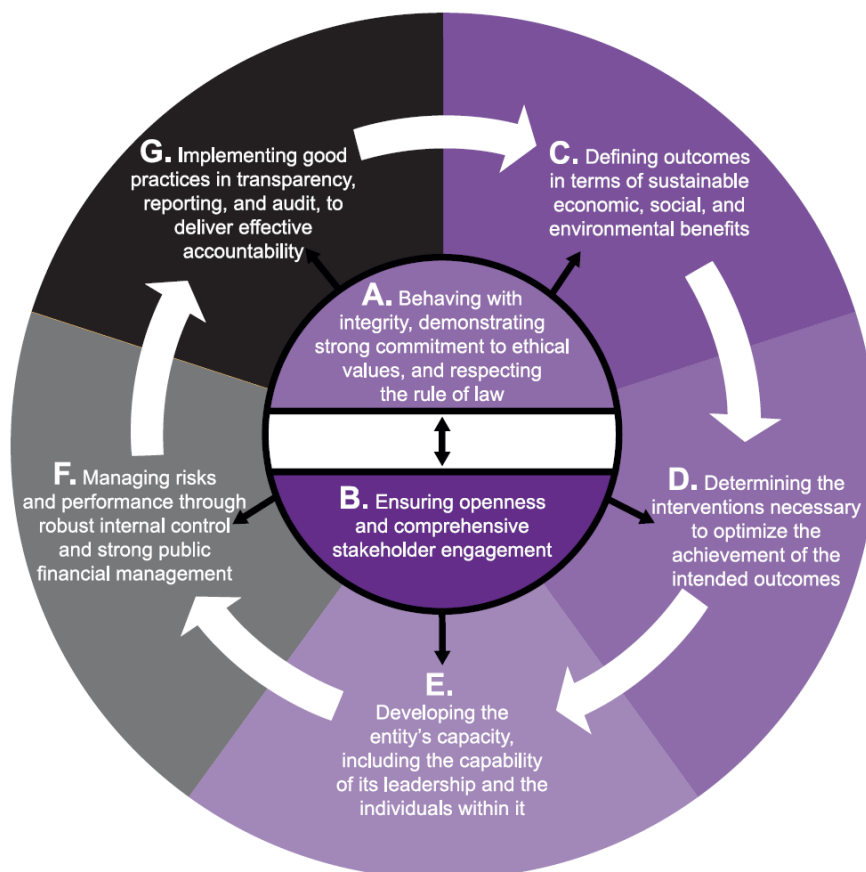
The system of internal control is a significant part of our governance framework and is designed to manage risk to a reasonable level. It helps us to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. We cannot eliminate all risk so we can only provide reasonable and not absolute assurance of its effectiveness.

The governance framework is kept under review and has been in place at YPO for the year ended 31<sup>st</sup> December 2018 and up to the date of approval of the statement of accounts.

**Annual Governance Statement 2018**

**YPO’s Local Code of Corporate Governance and Annual Governance Statement – Continuous Improvement in 2017 and 2018 – Simon Hill, Managing Director**

YPO’s corporate governance reporting is based on the underlying CIPFA / SOLACE Good Governance in Local Government Framework. In 2016 this framework was updated and new principles established with the aim of helping organisations to achieve their intended outcomes while acting in the public interest at all times.



In previous years we have published a longer Annual Governance Statement which contained detailed information on YPO’s corporate governance arrangements and how they complied with the CIPFA / SOLACE principles. Publication of the new framework in 2016 gave us the opportunity to review what information we publish and where, and in 2017 we made some initial changes that we have built on in 2018.

Much of the detail previously published in our Annual Governance Statement is now published in our revised Local Code of Corporate Governance. This enables us to reduce the amount of detail in our Annual Governance Statement and meet the CIPFA / SOLACE framework recommendation that the statement is high level, strategic and readable, with a focus on the results of the annual review of the effectiveness of our governance arrangements.

## Annual Governance Statement 2018

### **Purpose of the Annual Governance Statement**

YPO prepares an Annual Governance Statement in order to report publicly on the extent to which we comply with our own Local Code of Corporate Governance and carried out an annual review to ensure that they remain effective. The statement enables YPO to communicate to our owners, members, partners, suppliers, customers and other stakeholders how the controls we have put in place help to manage the risks to the delivery of our objectives.

The process of preparing the Annual Governance Statement itself adds value to the effectiveness of the governance and control framework.

The Annual Governance Statement is signed by the Chair of the Audit & Scrutiny Sub-Committee and the Managing Director on behalf of YPO.

The Annual Governance Statement is considered and approved by the Audit Sub-Committee on behalf of the Management Committee and included with YPO's statement of accounts.

**Annual Governance Statement 2018**

**How does governance work in practice at YPO?**

YPO is a Joint Committee formed under the Local Authority (Goods and Services) Act 1970. As the largest formally constituted local authority purchasing consortium in the UK, YPO is governed by a management committee of elected representatives (councillors) from its owning member authorities. The Management Committee, which consists of representatives from each of the thirteen founder authorities, governs YPO policy and decision making arrangements and reflects openness, accountability and transparency. Specific procedural rules, protocols and policies are in place to govern committee functions and delegated authority. The Management Committee and all Sub-Committees have clear terms of reference that are reviewed on a regular basis.

A Scheme of Delegation is in place which enables the Board of Directors of YPO to make decisions on behalf of the Management Committee, except for certain specific matters which are reserved for the Management Committee, Sub-Committees or the statutory officers of YPO. The Management Committee appoint an Independent Director to sit on the Board to provide an extra level of assurance that the Board is running YPO effectively.

The Statutory Finance (S151) Officer of the Lead Authority is responsible to the Management Committee for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. The Managing Director has a clear role, responsibility and duty as specified in the Scheme of Delegation and the Financial Procedure Rules for day to day financial management and adherence.

The Statutory Monitoring Officer of the Lead Authority is responsible to the Management Committee for ensuring that agreed procedures are followed and that all applicable Statutes and Regulations are complied with. Members of the YPO Board of Directors have clear roles, responsibilities and duties as specified in the Scheme of Delegation for day to day governance.

The YPO Board have regular meetings with the Strategic Officers Group (which is comprised of senior officers from member authorities), the Section 151 Officer and Monitoring Officer of the Lead Authority. The Lead Authorities Internal Audit team is responsible for providing an independent and objective opinion on the control environment within YPO. Their audit plan and subsequent findings are reported to the Directors of YPO, the Management Committee and the Audit Sub-Committee.



**Annual Governance Statement 2018****How has the Annual Governance Statement been prepared? - Paul Smith, Executive Director**

In preparing the Annual Governance Statement, YPO has:

- Reviewed our existing governance arrangements against the CIPFA / SOLACE 2016 framework, as reflected in our Local Code of Corporate Governance, to make sure they remain effective and up to date
- Completed a Board Assurance Process, a self-assessment that gives Board Members the opportunity to reflect on governance in the past year and how we meet each of the principles and sub-principles set out in our Local Code. We don't wait until the annual review to take any action needed, but if there is anything still outstanding at the year end, we report it in the Annual Governance Statement, along with a plan for how we are, or are proposing, to address the issue in the following year
- Reviewed other sources of assurance and what this tells us about how governance and controls are working in practice at YPO. Our main sources of assurance are:
  - Wakefield Council – as our Lead Authority, the Council provides us with the services of a Chief Financial Officer (and S151 Officer) and Monitoring Officer, who play key roles in helping to ensure that YPO operates within financial and other regulatory requirements.
  - Wakefield Council also provides our Internal Audit function. The Internal Audit Team is responsible for providing an independent and objective opinion on the control environment within YPO. Their audit plan and subsequent findings are reported to the Directors of YPO, the Management Committee and the Audit Sub-Committee. The Head of Audit has access to the Managing Director and Board Members at any time and submits an annual report each year.
  - External Audit, currently provided by KPMG, who examine our financial statements and highlight any matters for report on the annual governance statement.
  - The Management Committee – YPO is managed by a committee of elected representatives from our 13 public sector founder member authorities.
  - Audit & Scrutiny Sub-Committee – this consists of nine elected representatives from our 13 public sector founder members (no more than one councillor from any member authority and not the Chair or Vice Chair of the Management Committee) – previously separate sub-committees the Audit and Scrutiny Sub-Committees were merged into one sub-committee from April 2017
  - The Senior Leadership Team and other senior managers who contribute to the development and maintenance of YPO's governance arrangements

## Annual Governance Statement 2018

### Review of Effectiveness

The Management Committee met regularly in 2018 to consider matters such as YPO's Standing Orders for Contracts, Financial Procedure Rules, Internal Audit's Annual Report, the Statement of Accounts, the Governance Review, the Business Update and the new 3 Year Strategy for 2018 - 2020.

The Independent Director continued to play a key governance role on the Board.

The Audit & Scrutiny Sub-Committee considered the External Audit Report, Audited Statement of Accounts, Governance Review, Internal Audit Progress Report and a Risk Management Update and engaged in various training sessions.

Wakefield Council Internal Audit's overall opinion on the systems of internal control at YPO during 2018 is:

"From the work undertaken by Internal Audit during 2018, key controls were found to be in place to manage associated risks to the required level. No significant errors, losses or omissions have been identified through the systems reviewed. Where opportunities for improvements have been identified, we have received a commitment from senior management to address the issues raised. On this basis a satisfactory overall opinion is provided for 2018, based on the audit work detailed within this report.

The audit work undertaken to support this opinion has been conducted in accordance with the mandatory requirements of the Public Sector Internal Audit Standards."

We anticipate (at this stage) that KPMG will issue an unqualified opinion on YPO's 2018 Financial Statements and to confirm that there are no matters to report in respect of their review of the Annual Governance Statement for compliance with the 'Delivering Good Governance in Local Government: a Framework' 2016.

As part of the review of overall effectiveness, in December 2018 YPO Board Members completed the Board Assurance Process. No significant new governance issues were identified, and outstanding issues reported in the AGS 2017 review were followed up. However, as part of our commitment to continuous improvement in governance, we plan to further strengthen arrangements in some areas, as set out below.

## Annual Governance Statement 2018

### Significant Governance Issues

In the Annual Governance Statement 2017 the following was identified as an area for improvement, and is now being followed up.

- YPO will review its partnership protocols. This work is currently ongoing within Procurement Services and a new Partnership Strategy is expected in 2019

Also in the Annual Governance Statement 2017, Julie Wray, Executive Director (HR & Logistics) noted that

- We demonstrate our ethical values at the organisational level through our commitment to [Corporate Social Responsibility](#) and our [Modern Slavery Statement](#) which we published for the first time in 2016
- Many of our staff are members of professional organisations that set out their own code of ethics and rules of conduct (eg CIPS, CIPD) which we encourage them to follow

Further improvement in demonstrating our ethical values is planned for 2019. YPO's Modern Slavery Statement has now been embedded within our sustainable procurement approach and commitment to achieve the UN global goals. We also plan to review our ethical framework against a report due to be published by CIPFA in 2019.

In 2018 we made significant improvements in our anti-fraud work, in particular in raising awareness of fraud and providing training and support to staff, and again this will continue in 2019 with the introduction of new regular fraud reports and bulletins and the completion of a review of all Anti-Fraud & Bribery Framework policies, first started in 2018.

We also plan to make better use of technology to improve internal control such as requiring electronic sign up to relaunched policies eg the Employee Code of Practice, Register of Employee Interests and Gifts & Hospitality.

**Annual Governance Statement 2018****The Role of the Audit & Scrutiny Sub-Committee – Chair Cllr David Warburton, Bradford MDC**

The role of the Audit & Scrutiny Sub-Committee is to ensure that the highest standards of probity and public accountability are demonstrated and, in doing so, ensure effective governance of YPO. The Sub-Committee provides 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. In particular we consider the Internal Audit plan and performance and oversee the completion of actions to improve internal control; the External Audit work programme and opinion; and the effectiveness of YPO's arrangements for risk management and decision making.

On behalf of the Audit & Scrutiny Sub-Committee I am delighted to approve the Annual Governance Statement 2018 and recommend it to the Management Committee for inclusion with the Statement of Accounts.

**Declaration**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Board of Directors and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. Any areas for improvement identified have been detailed above.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Chair of the Audit Sub-Committee

Managing Director

Date

## YPO Local Code of Corporate Governance 2019

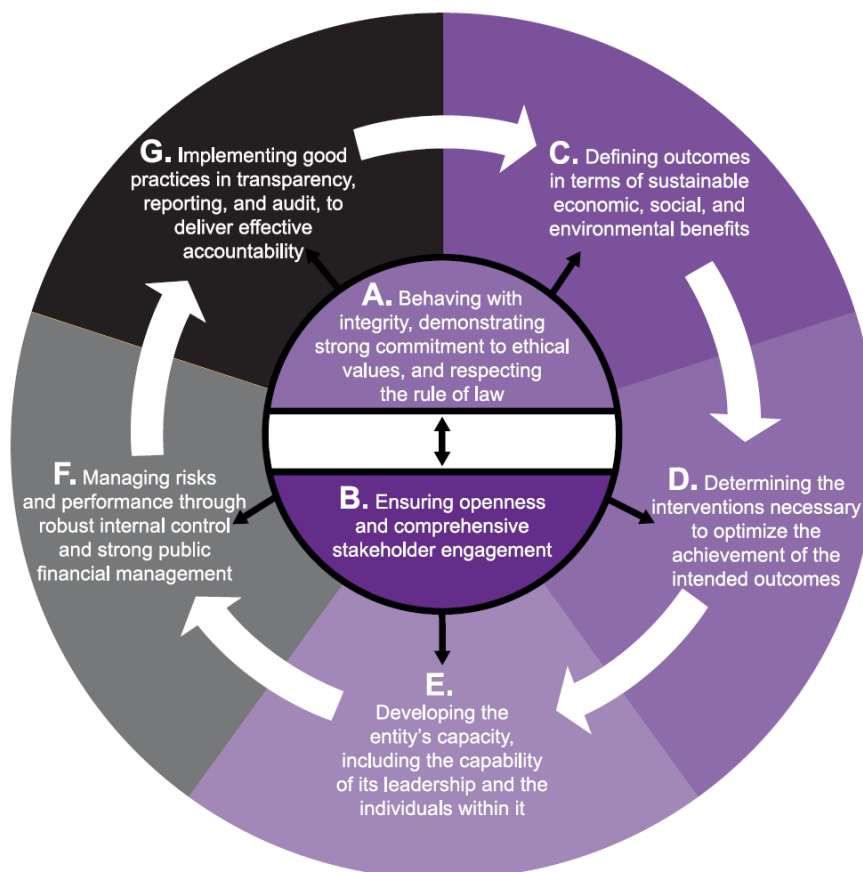
### International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014)

The International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2014) illustrates the various principles of good governance in the public sector and how they relate to each other. The aim of the governance principles is:

**“Achieving the intended outcomes while acting in the public interest at all times”**

The diagram below is taken from the International Framework and shows how the principles relate to each other. The International Framework notes that:

“Principles A and B permeate implementation of Principles C to G. The diagram illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.”



The International Framework defines governance as follows: “the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

“To deliver good governance in the public sector, both governing bodies and individuals working for public sector organisations must try to achieve the organisation’s objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

## YPO Local Code of Corporate Governance 2019

### Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE 2016)

In 2016 CIPFA / SOLACE published Delivering Good Governance in Local Government: Framework. This document interprets the core principles and sub-principles set out in the International Framework for a local government context.

The CIPFA / SOLACE framework is applicable to all parts of local government and its partnerships, joint boards and other vehicles through which local authorities deliver their services. However the framework recognises that a one-size-fits-all approach is inappropriate as not all parts of the framework will be applicable to all organisations. It is up to each organisation to:

- Set out its commitment to the principles of good governance included in the Framework
- Determine its own governance structure, or local code, underpinned by these principles
- Ensure that it remains up to date, relevant and operates effectively in practice

Regulation 6(a) of the Accounts & Audit Regulations 2015 requires an authority to conduct a review at least annually of the effectiveness of its system of internal control and include a statement reporting the review with any published Statement of Accounts, in accordance with proper practices.

Carrying out the annual review and preparing an Annual Governance Statement in accordance with the 2016 CIPFA/SOLACE Framework fulfils this statutory requirement.

### YPO's Commitment to Good Governance

YPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and that these funds are used economically, efficiently and effectively. YPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

YPO acknowledges its responsibility for putting in place proper and effective governance arrangements. YPO has approved and adopted this Local Code of Corporate Governance which is consistent with the principles of the 2016 CIPFA / SOLACE Framework.

YPO will also conduct a review at least annually of the effectiveness of its systems of internal control and report the findings in an Annual Governance Statement, in accordance with the proper practice set out in the 2016 CIPFA / SOLACE Framework. This statement will explain how YPO has complied with this Local Code.

**YPO Local Code of Corporate Governance 2019****Purpose of YPO's Governance Framework**

Governance is about ensuring that we do the right things, at the right time, in the right way, for the right people in an open, transparent, honest and accountable manner.

YPO's governance framework comprises the systems and processes, culture and values by which we direct and control the organisation, engage with, and remain accountable to, our owners and other key stakeholders. It enables YPO to monitor the achievement of our strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of our governance framework and is designed to manage risk to a reasonable level. It helps us to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically. We cannot eliminate all risk so we can only provide reasonable and not absolute assurance of its effectiveness.

**YPO Local Code of Corporate Governance 2019**

**How does governance work in practice at YPO?**

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A Scheme of Delegation is in place which enables the Board of Directors of YPO to make decisions on behalf of the Management Committee, except for certain specific matters which are reserved for the Management Committee, Sub-Committees or the statutory officers of YPO.

The Statutory Finance (S151) Officer of the Lead Authority is responsible to the Management Committee for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. The Managing Director has a clear role, responsibility and duty as specified in the Scheme of Delegation and the Financial Procedure Rules for day to day financial management and adherence.

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**YPO Local Code of Corporate Governance 2019**

**Principle A Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Local Government organisations are accountable for how much they spend, and how they use the resources under their stewardship. This includes outputs, positive and negative, and for the outcomes they have achieved. They have an overarching responsibility to serve the public interest in adhering to legislation and government policies. It is essential that they can demonstrate the appropriateness of their actions and have the mechanisms in place to encourage and enforce ethical values and respect for the law.

<b>Supporting Principle – Behaving with Integrity</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the organisation’s reputation	YPO’s committees are made up of elected members from our 13 Founder Member local authorities. Members complete their own council’s induction and training and must comply with their codes of conduct, members interests policy etc. Each year, YPO’s Head of Finance reviews committee members’ declarations of interest to identify potential conflicts of interest.
Members take the lead in establishing specific standard operating principles and values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles – selflessness; integrity; objectivity; accountability; openness; honesty; leadership)	The first agenda item on all <a href="#">Management Committee</a> and other member meetings is declaration of interests.  All employees receive an induction pack when starting work at YPO that includes the <a href="#">Employee Code of Conduct</a> There is a process in place to ensure employees and managers sign off the completed induction.
Lead by example. Use standard operating principles or values for decision making and other actions.  Demonstrate, communicate and embed the standard operating principles through appropriate policies and processes which are reviewed on a regular basis to ensure they are operating effectively.	YPO’s values are the things we believe in: they are practical, directly inform the decisions we make and actions we take, and are visibly demonstrated through employee behaviour. <ul style="list-style-type: none"> <li>• We care</li> <li>• We are helpful</li> <li>• We don’t like waste</li> <li>• We are straight talking</li> </ul> YPO’s Anti-Fraud & Bribery Framework includes <ul style="list-style-type: none"> <li>• Anti-Fraud &amp; Bribery Risk Assessments</li> <li>• Anti-Fraud &amp; Bribery Policy</li> <li>• Fraud Response Plan</li> <li>• Employee Interests Policy &amp; Register</li> <li>• Gifts &amp; Hospitality Policy &amp; Register</li> <li>• Whistle Blowing Policy</li> </ul>

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<b>Supporting Principle – Demonstrating strong commitment to ethical values</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Seeking to establish, monitor and maintain the organisation’s ethical standards and performance	As a large public sector employer YPO has a role to strengthen the communities and societies we do business in, to benefit the environment, our customers and consumers, employees, stakeholders and other members of the public.
Underpinning personal behaviour with ethical values and ensuring that they permeate all aspects of the organisation’s culture and operation	YPO is committed to high standards of <a href="#">Corporate Social Responsibility</a> We are certified to the ISO14001 standard, publish a <a href="#">Modern Slavery Statement</a> and are embedding UN Sustainable Development Goals in all our procurements.
Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values	YPO’s <a href="#">Audit &amp; Scrutiny Sub-Committee</a> meets quarterly and plays a key role in holding the Board and Management Committee to account.
Ensuring that external suppliers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	YPO publishes a <a href="#">Recruitment &amp; Selection Policy</a> and further guidance on staff appointments.  YPO’s Anti-Fraud & Bribery Policy applies to associated persons including members, suppliers and distributors, who are asked to sign up to the Policy Statement.

<b>Supporting Principle – Respecting the rule of law</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Ensuring members and staff demonstrate a strong commitment to the rule of law as well as adhering to relevant laws and regulations	Wakefield Council act as YPO’s Lead Authority and provide various governance related functions including: Section 151 Officer (Chief Financial Officer), Internal Audit, Committee Support and Monitoring Officer. The latter ensures YPO complies with all relevant regulation and statutes  Report templates include a mandatory section for Legal Implications. Where appropriate, the Contracts Manager is consulted on any legal implications. Legal advice from Wakefield Council is recorded in meeting minutes.
Creating the conditions to ensure that statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	
Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	
Dealing with breaches of legal and regulatory provisions effectively	
Ensuring corruption and misuse of power are dealt with effectively	Internal Audit test YPO’s Anti-Fraud & Bribery Framework on a regular basis to provide assurance that it is working effectively in practice

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**Principle B Ensuring openness and comprehensive stakeholder engagement**

Local Government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

<b>Supporting Principle – Openness</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	<a href="#">YPO's</a> website is both transactional, enabling purchases, and provides information about our <a href="#">governance arrangements</a> , details of our compliance with <a href="#">transparency</a> requirements and access to information including our Access to Information Policy and Guide to Information.
Making decisions that are open about actions, plans, resource use, forecasts, outcomes and outputs. Presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided	YPO publishes an <a href="#">Annual Report</a> that sets out our performance, achievements and improvements in the past year and our plans for the year ahead.
Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.	An annual timetable of meetings, reports and training is agreed with the Management Committee and other relevant committees and sub-committees each year, and adhered to. Variations to the timetable are allowed if reasons are given and agreed in advance.
Using formal and informal consultation and engagement to determine the most appropriate and effective interventions / courses of action	YPO elected member meeting papers are published in the <a href="#">Governance</a> section of our website except where they include exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972. Meetings are open to the public except when exempt information is being considered.

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Supporting Principle – Engaging institutional & individual stakeholders effectively	
Behaviours and actions that demonstrate good governance in practice	How we demonstrate this at YPO
Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	As a public sector procurement organisation, YPO’s key institutional stakeholders are its Founder Members, Associate Members, Strategic Partners, Suppliers, Distributors and local communities. YPO’s key individual stakeholders are its Customers and Employees.
Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	YPO engages with its owners both formally and informally, on a regular basis. Consultation and agreement on the 3 year strategy ensures that YPO’s objectives are aligned to our owners’ long term and political wishes. Regular engagement also takes place through the Strategic Officers Advisory Group (SOAG), which is comprised of senior officers from member authorities, the Lead Authority’s Monitoring Officer and Section 151 Officer.
Ensuring that partnerships are based on: <ul style="list-style-type: none"> <li>• Trust</li> <li>• A shared commitment to change</li> <li>• A culture that promotes and accepts challenge among partners</li> </ul> And that the added value of partnership working is explicit	YPO engages its strategic partners, suppliers and customers through forums and events, and seeks independent <a href="#">customer reviews</a> via feefo (currently a satisfaction rating of 94%)
Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account	YPO engages with its staff through organisation wide updates including the Big Day, the Intranet and notice boards, team brief and consultation with the Trade Union. We encourage staff to take part in regular employee surveys, both internal and via <a href="#">Sunday Times Best Companies</a>
Taking account of the interests of future generations of tax payers and service users	

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**Principle C                    Defining outcomes in terms of sustainable economic, social and environmental benefits**

The long term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

<b>Supporting Principle – Defining outcomes</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions	YPO’s vision is that every single public sector organisation achieves the best possible value for money when procuring goods and services. YPO’s mission is to be the UK’s number one public sector buying organisation.
Specifying the intended impact on, or changes for, stakeholders. It could be immediately or over the course of a year or longer	We publish a 3 year strategy: for 2018 – 2020 this is called “Relevance” and sets out a strategic statement of our overall vision for the business; current business plan; medium term financial strategy; objectives and deliverables over the next three years that will be monitored to ensure achievement of our aims.
Delivering defined outcomes on a sustainable basis within the resources that will be available	Strategic objectives are reviewed annually and supported by an annual business planning cycle linked to annual budget setting. Budgets and key performance indicators are monitored monthly by the Board and Senior Leadership Team (SLT).
Identifying and managing risks to the achievement of outcomes	YPO maintains a Risk Management Policy & Strategic Framework. The YPO Board are responsible for managing the Strategic Risk Register which reflects the most significant risks to the achievement of YPO’s long term objectives and outcomes. The Strategic Risk Register is reported annually to the Audit & Scrutiny Sub-Committee.

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<b>Supporting Principle – Sustaining economic, social and environmental benefits</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
<p>Taking a longer term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short term factors such as the political cycle or financial constraints</p>	<p>Consultation and agreement on YPO’s 3 year strategy ensures that our objectives are aligned to our owners’ long term and political wishes.</p> <p>YPO is committed to high standards of <a href="#">Corporate Social Responsibility</a> We are certified to the ISO14001 standard, publish a <a href="#">Modern Slavery Statement</a> and are embedding UN Sustainable Development Goals in all our procurements.</p>

**Principle D Determining the interventions necessary to optimise the achievement of the intended outcomes**

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

<b>Supporting Principle – Determining interventions</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
<p>Ensuring decision makers received objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.</p>	<p>The YPO Board and Strategic Officers Advisory Group, including the Lead Authority’s S151 Officer and Monitoring Officer meet on a regular basis and discuss information needs of members to support effective decision making.</p> <p>An annual timetable of meetings, reports and training is agreed with the Management Committee and other relevant committees and sub-committees each year, and adhered to. Variations to the timetable are allowed if reasons are given and agreed in advance.</p>

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	Decision making protocols are in place and supported by clear terms of reference for the Management Committee and sub committees. Report templates include mandatory sections for legal, financial and risk implications, options appraisals and reasons for recommendations.
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#### Supporting Principle – Planning interventions

Behaviours and actions that demonstrate good governance in practice	How we demonstrate this at YPO
Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	An annual timetable of meetings, reports and training is agreed with the Management Committee and other relevant committees and sub-committees each year, and adhered to.
Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	A set of commercial, financial and other key performance indicators is agreed annually, reported and monitored on a regular basis. Remedial action is identified, where necessary if performance is off track.
Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	
Ensuring capacity exists to generate the information required to review service quality regularly	
Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan	The Medium Term Financial Plan forms part of the 3 year strategy and is reviewed as part of the annual business planning process.
Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at develop a sustainable funding strategy	There is a robust annual budget setting process that takes into account strategic and business planning, revenue budgets, profit projections and longer term financial investment.  Once agreed, budgets are monitored monthly and forecasts updated to reflect activity.

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<b>Supporting Principle – Optimising achievement of intended outcomes</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Ensuring the Medium Term Financial Strategy integrates and balances service priorities, affordability and other resource constraints	The Medium Term Financial Plan takes into account the long term priorities set out in the 3 year strategy and informs annual budget setting  Budget holders are consulted on their budgets before they are finalised and provided with monthly updates against forecast.
Ensuring the budget process is all inclusive, taking into account the full cost of operations over the medium and longer term	
Ensuring the Medium Term Financial Strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	
Ensuring the achievement of social value through service planning and commissioning (The <a href="#">Public Services (Social Value) Act 2012</a> the additional benefit to the community ... over and above the direct purchasing of goods, services and outcomes	Social value is a key factor in procurement decisions. YPO is committed to high standards of <a href="#">Corporate Social Responsibility</a> We are certified to the ISO14001 standard, publish a <a href="#">Modern Slavery Statement</a> and are embedding UN Sustainable Development Goals in all our procurements.

**Principle E Developing the organisation’s capacity, including the capability of its leadership and the individuals within it**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity or the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government is strengthened by the participation of people of many different types of backgrounds, reflecting the structure and diversity of communities.

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<b>Supporting Principle – Developing the organisation’s capacity</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Reviewing operations, performance of assets on a regular basis to ensure their continuing effectiveness	Progress against achievement of objectives and deliverables set out in the 3 year strategy is monitored on a regular basis. Business planning is carried out annually.
Improving resource use through appropriate application of techniques such as benchmarking and other options to determine how the organisation’s resources are allocated so that outcomes are achieved effectively and efficiently	The Commercial Activity Plan includes an analysis of market intelligence as well as YPO performance against plan and progress is reported to the Board monthly along with financial performance reports.  Where necessary external expertise is secured to review use of assets and resources with the aim of optimising them for example risk engineers and consultants for warehouse and logistics operations design and performance management
Recognising the benefits of partnerships and collaborative working where added value can be achieved	All major programmes and projects are managed by the Programme Board which meets monthly, feeds into Board meetings and 3 year strategy.
Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	YPO recognises that lack of workforce skills is a strategic risk and has put in place a Workforce Strategy, skills audits and an Apprenticeship Programme.

<b>Supporting Principle – Developing the capability of the organisation’s leadership and other individuals</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.	The relationship between YPO and its owners is set out in a Management Agreement. Terms of reference and respective roles for the YPO Board, Management Committee and other Sub-Committees are clear and reviewed regularly.
Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the organisation in implementing strategy and managing the	Financial regulations clearly set out delegated authority to YPO’s Managing Director and Board, and are reviewed annually, as are Standing Orders for Contracts.

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<p>delivery of services and other outputs set by members and each provides a check and a balance for each other's authority</p>	<p>The Audit &amp; Scrutiny Sub-Committee oversee scrutiny of decision making and independent challenge and hold the Management Committee and YPO Board to account.</p>
<p>Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body</p>	<p>Decision making processes are transparent and timely. An annual timetable of meetings, reports and training is agreed each year, and adhered to. Variations are allowed if valid reasons are given and agreed in advance by the relevant Committee or Sub-Committee to which the report would usually be made.</p> <p>YPO elected member meeting papers are published in the <a href="#">Governance</a> section of our website except where they include exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972.</p>
<p>Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:</p> <ul style="list-style-type: none"> <li>• Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged</li> <li>• Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis</li> <li>• Ensuring personal, organisational and system-wide development through shared learning, including lessons learned from governance weaknesses both internal and external</li> </ul>	<p>Elected members receive induction, training and development through their individual local authorities and receive further training at YPO on a range of topics relevant to their role, from employees and from external providers.</p> <p>All employees complete an induction when starting work at YPO and have an annual appraisal that identifies their training needs and ways to meet them.</p> <p>YPO has a dedicated Learning &amp; Development Team that provides in-house training, maintains an eLearning platform, and oversees access to professional and other qualifications.</p> <p>YPO also provides organisation wide training in areas such as Health &amp; Safety, fraud awareness and prevention.</p> <p>Employees are encouraged to maximise training opportunities and maintain continuing professional development through membership of professional and other bodies eg CIPS, ICS</p>
<p>Holding staff to account through regular performance reviews which take account of training or development needs</p>	<p>YPO carries out workforce and succession planning and has an established apprenticeship scheme.</p>

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<p>Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing</p>	<p>The Health &amp; Safety Committee is chaired by the Managing Director and meets monthly. YPO maintains an Employee Assistance Programme that includes policies and support such as Wellbeing Days, Occupational Health, mental health awareness and access to 24/7 telephone support, advice and counselling.</p>
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**Principle F            Managing risks and performance through robust internal control and strong public financial management**

Local government needs to ensure that organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

<p><b>Supporting Principle – Managing risk</b></p>	
<p><b>Behaviours and actions that demonstrate good governance in practice</b></p>	<p><b>How we demonstrate this at YPO</b></p>
<p>Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making</p>	<p>YPO has a risk management policy and strategic framework that sets out our approach to risk, how we categorise, score and prioritise risk. YPO maintains a Strategic Risk Register, Anti-Fraud &amp; Bribery Risk Assessments, operational risk registers for each department. Risk registers are owned by Board and SLT members and each risk is assigned to an individual.</p>
<p>Implementing robust and integrated risk management arrangements and ensuring that they are working effectively</p>	<p>Risk management documents are reviewed annually and reported to the YPO Board and the Audit &amp; Scrutiny Sub-Committee. Training is provided to enable Board and Sub-Committee members to scrutinise them effectively.</p>
<p>Ensuring that responsibilities for managing individual risks are clearly allocated</p>	<p>Internal Audit review YPO’s risk management arrangements and test the controls in place to manage risks to provide assurance that they are operating effectively in practice.</p>

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<b>Supporting Principle – Managing performance</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Monitoring service delivery effectively including planning, specification, execution and independent post implementation review	As a public sector procurement organisation, YPO’s performance framework focusses on its trading and sales plans and results, and financial performance, including margin, profit, overheads
Making decisions based on relevant, clear, objective analysis and advice pointing out the implications and risks inherent in the organisation’s financial, social and environmental position and outlook	Discussions take place between members and officers on the information needs of members to support decision making. A timetable of meeting dates, agenda items and reports is agreed annually and published on <a href="#">YPO/Governance</a> Members Services are provided by Wakefield MDC and YPO’s Business Services Team.
Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation’s performance and that of any organisation for which it is responsible	YPO’s <a href="#">Scrutiny Sub-Committee</a> consisted of seven elected members who were not members of the Executive Sub-Committee that met every 3 – 4 months. Since May 2017 YPO has had a combined Audit & Scrutiny Sub-Committee who with agreed <a href="#">Terms of Reference</a> There is a member training programme to assist members to deliver their role.
Providing members and senior management with regular reports on service delivery plans and progress towards outcome achievement	An information pack of financial and other key performance indicators is prepared and reported to the YPO Board monthly and the Management Committee quarterly.
Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)	YPO maintains <a href="#">Financial Procedure Rules</a> and <a href="#">Standing Orders for Contracts</a> that are reviewed and reported annually.

<b>Supporting Principle – Robust internal control</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Aligning the risk management strategy and policies on internal control with achieving the objectives	Internal Audit is provided by Wakefield MDC. The Head of IA presents an Annual Audit Plan for agreement by the YPO Board, Management Committee and Audit & Scrutiny Sub-Committee. Audit reports are agreed with the relevant Board or SLT member. Agreed audit actions are monitored for completion and outstanding actions are reported annually to the Audit & Scrutiny Sub-committee.
Evaluating and monitoring the organisation’s risk management and internal control on a regular basis	

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<p>Ensuring effective counter fraud and anti-corruption arrangements are in place</p>	<p>YPO’s Anti-Fraud and Bribery Framework includes arrangements to raise and maintain fraud awareness with staff. YPO co-ordinates with Wakefield MDC for serious fraud reporting and investigation.</p>
<p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p>	<p>YPO publishes a Local Code of Governance, carries out an Annual Governance Review, and reports the results in an Annual Governance Statement, which accompanies its Statement of Accounts.</p>
<p>Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> <li>• Provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</li> <li>• That its recommendations are listened to and acted upon</li> </ul>	<p>YPO’s <a href="#">Audit Sub-Committee</a> consisted of nine elected members from its founder member authorities. Since May 2017 YPO has had a combined Audit &amp; Scrutiny Sub-Committee that operates in accordance with agreed <a href="#">Terms of Reference</a> The member training programme includes audit and risk management training.</p>

<p><b>Supporting Principle – Managing data</b></p>	
<p><b>Behaviours and actions that demonstrate good governance in practice</b></p>	<p><b>How we demonstrate this at YPO</b></p>
<p>Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data</p>	<p>YPO’s data management framework includes:</p> <ul style="list-style-type: none"> <li>• Data Protection Policy and Guidance</li> <li>• Retention Policy</li> <li>• Privacy Impact Assessment Guidance</li> <li>• Information Security Incident Reporting</li> <li>• Access to Information Policy</li> <li>• Guide to Information</li> </ul> <p>YPO’s statutory Data Protection Officer function is provided by Calderdale Council under an SLA</p>
<p>Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies</p>	
<p>Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring</p>	

<p><b>Supporting Principle – Strong public financial management</b></p>	
<p><b>Behaviours and actions that demonstrate good governance in practice</b></p>	<p><b>How we demonstrate this at YPO</b></p>
<p>Ensuring financial management supports both long term achievement of outcomes and short term financial and operational performance</p>	<p>The Lead Authority’s Section 151 Officer is responsible for ensuring the Management Committee receive proper financial advice, records and accounts.</p>

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<p>Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls</p>	<p>YPO’s financial management supports the delivery of services and transformation change as well as good stewardship and includes:</p> <ul style="list-style-type: none"> <li>• Treasury Management Policy</li> <li>• Medium Term Financial Strategy</li> <li>• Annual budget setting process that takes into account projected income / profit needs as well as annual business planning requests</li> <li>• Monthly budget monitoring reports and meetings between budget holders and Finance Business Partners</li> <li>• Integrated financial and performance reporting</li> <li>• Budget Holder Responsibility Policy</li> </ul>
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**Principle G            Implementing good practices in transparency, reporting and audit to deliver effective accountability**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both internal and external audit contribute to effective accountability.

<p><b>Supporting Principle – Implementing good practice in transparency</b></p>	
<p><b>Behaviours and actions that demonstrate good governance in practice</b></p>	<p><b>How we demonstrate this at YPO</b></p>
<p>Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate</p>	<p><a href="#">YPO's Website</a> is both transactional and publishes details of our <a href="#">governance</a>, reporting, and <a href="#">transparency</a> arrangements which sets out our commitment to Freedom of Information and provides links to our <a href="#">Access to Information Policy</a> and <a href="#">Guide to Information</a> and the data we publish to comply with the requirements of the <a href="#">Local Government Transparency Code 2015</a></p>
<p>Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand</p>	

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<b>Supporting Principle – Implementing good practice in reporting</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Reporting at least annually on performance, value for money and the stewardship of its resources	YPO publishes an <a href="#">Annual Report</a> . YPO publishes its <a href="#">Financial Statements</a> including an audited Statement of Accounts (although as a Joint Committee it is no longer required to do so).
Ensuring members and senior management own the results	Copies of meeting agendas, reports and minutes for <a href="#">YPO Management Committee</a> and other sub-committees including the <a href="#">Audit &amp; Scrutiny Sub-Committee</a> are published on the YPO website.
Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (AGS)	YPO publishes an Annual Governance Statement each year with the audited Statement of Accounts, that reports the results of our annual governance review against the arrangements set out in this Local Code of Governance in accordance with the good practice set out in the CIPFA/SOLACE Framework 2016

<b>Supporting Principle – Assurance and effective accountability</b>	
<b>Behaviours and actions that demonstrate good governance in practice</b>	<b>How we demonstrate this at YPO</b>
Ensuring that recommendations for corrective action made by external audit are acted upon Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	YPO's External Auditors are appointed using a competitive process every 3 years: the current external auditors are KPMG. They carry out both interim and final audits and publish an opinion on the Statement of Accounts.  Internal Audit is provided by YPO's lead authority, Wakefield Council, under an SLA.
Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	All audit actions are assigned to individuals, recorded and monitored for completion.  Outstanding actions are reported to the Audit & Scrutiny Sub-Committee annually. In 2017 there were no outstanding audit actions
Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the AGS	

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**YPO**  
**AUDIT & SCRUTINY SUB COMMITTEE**  
**TO BE HELD ON**  
**15<sup>TH</sup> FEBRUARY 2019**

**SUBJECT: STATEMENT OF ACCOUNTS 2018**

**REPORT OF: FINANCIAL CONTROLLER**

---

**1 PURPOSE OF REPORT**

1.1 To present the pre-audit Statement of Accounts for 2018.

**2 SUMMARY**

2.1 The draft Statement of Accounts has been prepared and is ready for External Audit.

**3 RECOMMENDATIONS**

3.1 That it is noted that the draft Statement of Accounts is ready for audit.

**4 BACKGROUND**

4.1 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.

4.2 Although the compliance noted in 4.1 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 each year in line with the relevant standards and regulations.

4.3 The audit is will take place in March 2019 for a period of two weeks.

- 4.4 The pre-audit statement of accounts has been examined by officers from the Lead Authority.
- 4.5 Property valuations were obtained from Norfolk Property Services as at 30<sup>th</sup> November 2018 and adjustments to the accounts have been made in accordance with UK Generally Accepted Accounting Principles.
- 4.6 The pensions account has been adjusted in accordance with the recent actuarial valuation provided.

## **5. PROFIT & LOSS RECONCILIATION**

- 5.1 On page 10 of the attached Statement of Accounts is the Comprehensive Income and Expenditure (I&E) Account. The I&E Account for 2018 presents a net deficit for the provision of service of £2.189m. This is in comparison to profits of £8.571m reported in Note 16 “Amounts reported for Decision making and planning” and £8.584m in December’s initial performance report.
- 5.2 The variance between the I&E account and the amounts reported for decision making and planning of £10.760m is due to the deficit on the provision of service including all financing and investment expenditure. Therefore, all pension service costs £2.138m, pension interest costs of £0.613m, dividend payments made in the year of £7.253m and earmarked reserve expenditure of £0.989 are included as well as the revaluation gain on Land and Buildings of £0.233m.
- 5.3 The variance between the I&E account and December’s initial performance report is the same as point 5.2 above, plus £0.013m for adjustments made to the final profit figure. This was a result of some slight amendments made to December’s accruals total identified during the year-end process.
- 5.4 The above variances are detailed in appendix 2 to this report.

## **6 OPTIONS APPRAISAL**

- 6.1 It is proposed that the Statement of Accounts be agreed and that it is provided to the External Auditor.

## **7. WHAT DOES THIS MEAN FOR YPO STAKEHOLDERS**

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

## **8. OUTCOME AND SUSTAINABILITY**

- 8.1 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.

**9. RISK ASSESSMENT**

- 9.1 There is a risk that the accounts will be qualified, which will have political and reputational risks for YPO. Working closely with the external auditors and acting on findings should mitigate that risk.

**10. CONSULTATIONS AND ENGAGEMENT**

- 10.1 Consultations have taken place with the Lead Authority about the contents of the Statement of Accounts. Further consultations will take place as and when required.

**11. BACKGROUND PAPERS**

- 11.1 Statement of Accounts for 2018.

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

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

**CONTACT OFFICER: MATTHEW HIRST, FINANCIAL CONTROLLER**

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**APPENDICES:**

*Appendix 1: Reconciliation of Deficit on Provision of Service to Year End Profits*  
*Appendix 2: Draft Statement of Account 2018*

## Appendix 1: Reconciliation of Deficit on Provision of Service to Year End Profits

### 2018 Profit and Loss Reconciliation

	Comp I&E	MGT A/c P&L	Performance Report	Diff to P&L	Diff to Performance report
<b>Invoiced Turnover</b>	<b>112,881</b>	<b>112,881</b>	<b>112,881</b>	<b>(0)</b>	<b>(0)</b>
<b>Cost of Sales</b>	<b>(81,239)</b>	<b>(81,239)</b>	<b>(81,239)</b>	<b>(0)</b>	<b>(0)</b>
<b>Gross Margin</b>	<b>31,642</b>	<b>31,642</b>	<b>31,642</b>	<b>(0)</b>	<b>(0)</b>
Discounts	137	137	137	0	0
Rebates	4,773	4,773	4,773	0	0
Other Income	1,990	1,990	1,990	0	(0)
<b>Gross Surplus</b>	<b>38,542</b>	<b>38,543</b>	<b>38,542</b>	<b>(0)</b>	<b>(0)</b>
<b>Operating Expenses</b>					
Employees	(17,719)	(17,590)	(17,601)	(129)	(118)
Premises	(984)	(956)	(956)	(28)	(28)
Supplies and Services	(7,051)	(6,223)	(6,213)	(827)	(837)
Transport	(4,685)	(4,681)	(4,681)	(4)	(4)
S.L.A. Costs	(127)	(127)	(127)	0	0
Financial and Miscellaneous	(16)	(16)	(16)	0	0
Depreciation and revaluation increase/(decrease)	(191)	(424)	(411)	233	220
Pension service gain(cost) net of charges made to the general fund	(2,138)			(2,138)	(2,138)
<b>Net Operating Expenditure</b>	<b>(32,912)</b>	<b>(30,018)</b>	<b>(30,006)</b>	<b>(2,894)</b>	<b>(2,905)</b>
<b>Surplus/(deficit) on trading operations</b>	<b>5,630</b>	<b>8,525</b>	<b>8,536</b>	<b>(2,894)</b>	<b>(2,906)</b>
<b>Financing and investment income and expenditure</b>					
Pensions Interest Cost and Expected Return on Pension Assets	(613)			(613)	(613)
Interest Receivable	47	47	47	0	(0)
Dividend paid	(7,253)			(7,253)	(7,253)
<b>Surplus/(Deficit) on provision of service</b>	<b>(2,189)</b>	<b>8,571</b>	<b>8,584</b>	<b>(10,760)</b>	<b>(10,773)</b>

Reserve expenditure £129K, plus (£11K) reduction in accumulated absence provision.

Reserve expenditure £28K.

Reserve expenditure £827K, plus £10K increase in year end accruals.

Reserve expenditure £4K.

Revaluation gain of £233K, less additional depreciation relating to finance lease £13K.

**YORKSHIRE PURCHASING ORGANISATION**



**PRE - AUDIT  
STATEMENT  
OF ACCOUNTS  
2018**

# 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 2018. The Narrative Statement provides a guide to the most significant matters in the financial statements.

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

There are currently 13 founder member authorities and sixty five associate member authorities of YPO as of 31st December 2018, although the Organisation trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

### Founder Member Authorities

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

### Associate Member Authorities

### first year of membership

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

## Narrative Statement by the Managing Director

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

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 December 2018 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.

## Narrative Statement by the Managing Director

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

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

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

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

### **4. FINANCIAL SUMMARY**

The 2018 budget approved in November 2017 was for a turnover of £112m and a surplus of £8.2m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

Invoiced sales for the year are £112.9m and the reported surplus on trading of £8.571m is over the budget set of £8.2m by £0.371m, this excludes any income for pensions interest or expenditure financed from earmarked reserves.

Turnover targets for the year included growth aspirations in Education, despite difficult markets and decline in spend over the last 2 years, and geographical growth in the newer territories of the south of England and London Boroughs. These targets were met and exceeded with combined growth in Primary and Secondary Education of 4.8% against a background of overall market growth of 3.6% (BESA/C3 Education – Resources in English Maintained Schools research). Declines in turnover were experienced in the Early Years and Local Authority sectors, and overall the Food Category was affected significantly by adverse weather conditions and mainly changes to Multi Academy Trust purchasing decisions, although the increases in Education spend outweighed these.

Income from stock and framework contracts at £4.8m were under the budget of £5.6m, mainly due to our Emergency Services, Stock and Furniture categories under-achieving. The 2018 numbers have also been adversely impacted by an over accrual at the 2017 year end due to Q4 framework activity not materialising as expected across these areas. The year end accrual for 2018 has been prudently set to avoid a re-occurrence of this in 2019.

Operating costs for 2018 were £29.971m, £0.108m over budget and £0.828m under 2017. The main overspends in the year were across Transport and Stocktake Adjustments. Within transport our hired carrier costs were greater than expected due to a combination of increased driver's sickness and higher stores sales volumes both of which resulted in a higher number of consignments being fulfilled by third parties. The increase in stock adjustments is linked to the introduction of our Perpetual Inventory team from January which has brought with it greater volumes of items counted in the year. Partially offsetting these overspends are people savings due to the vacancies that we have held during the year.

In 2018 £0.989m of expenditure was funded through the internal earmarked reserve funds. This was planned expenditure approved at the November 2016 and November 2017 Management Committees.

Trade debtors are at £8.9m, the same as 2017. Despite higher sales in the year the similar amounts in year end debtors highlights the effective credit control processes in place.

The net assets of the organisation as at 31st December 2018 are £14.483m, a slight decrease on the £14.687m 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 and debtor balances corresponding to the increase in inventories and reduction in creditors. In the year we introduced our Treasury Management Policy which as at 31st December saw £5m invested with various local authorities in accordance with the agreed policy. The objectives of the Treasury Management policy are to minimise the risk associated with our cash holdings and to maximise the potential returns from our cash position.

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

## Narrative Statement by the Managing Director

Cash flow movement in the year has reduced the cash at bank balances by £1.2m. This reflects the operating performance of the organisation in the year and reconciles to the in-year profits, dividends paid, capital expenditure, loans issued and movements in debtors and creditors as per the cash flow statement.

£0.5m of Capital Expenditure was incurred in the year for the purchase of new fleet, warehouse equipment and software assets.

An agreed dividend distribution of £7.492m for the trading year 2017 was distributed in September 2018. This distribution, as last year, included all customers.

### **5. RETIREMENT BENEFITS**

The value of the organisation's retirement benefits liability as at 31 December 2018 was £26.5 million (31 December 2017 £25.6 million). This increase is due to the reduction in the funds asset returns over the accounting period outweighing an increase in the discount rate assumptions used.

The employer's contribution rate was 14.4% in 2018. (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 2018 financial year was given approval by the Management Committee at the meeting in November 2017. The budget was built on assumptions of sales growth on our core business from 2017 and an increase in our contractual rebate income for the year. As part of our future proofing programme we also incorporated a net savings target of £1.1m into our overheads budget for 2018, this along with the expected inflation costs for the year resulted in a budgeted operating costs to sales ratio of 25.40% .

A dividend distribution of £7.492m declared in respect of the 2017 trading year, was distributed in September 2018. This included a non cash loyalty bonus of £1.5m 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 2018 between the above companies are classed as related party transactions.

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

The 2019 Budget was approved by the Management Committee in November 2018 for the second year of our 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 2019 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 2023.

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 2018 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 2018, 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.

2017 Re-stated	£000's											
	Usable Reserves			Unusable Reserves								Total Reserves
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee Capital Adjustment Account	Earmarked Pension Reserve	Earmarked Accumulated absences account	Revaluation Reserve	Total Usable reserves	Total Unusable reserves	Total Reserves		
<b>Balance as at 31 December 2016</b>	28,818	85	1,770	10,545	(29,895)	(111)	0	30,674	(19,461)	11,213		
<b>Movement in Reserves during 2017</b>												
Surplus or (Deficit) on Operations	(3,552)							(3,552)	0	(3,552)		
Other Comprehensive Income					7,016		0	0	7,016	7,016		
<b>Total Comprehensive Expenditure and Income</b>	(3,552)	0	0	0	7,016	0	0	(3,552)	7,016	3,464		
Adjustments between accounting basis and funding basis under regulation				10								
<b>Net Increase / (Decrease) before transfer to Earmarked Reserves</b>	(3,552)	0	0	10	7,016	0	0	(3,552)	7,026	3,474		
Transfer (to) / from Earmarked Reserves	2,994		(74)	(228)	(2,692)		0	2,920	(2,920)	0		
<b>Increase / (Decrease) in Movement in Year</b>	(557)	0	(74)	(218)	4,324	0	0	(632)	4,106	3,474		
<b>Balance as at 31 December 2017</b>	28,261	85	1,696	10,327	(25,571)	(111)	0	30,042	(15,355)	14,687	13	

2018	£000's											
	Usable Reserves			Unusable Reserves								Total Reserves
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee Capital Adjustment Account	Earmarked Pension Reserve	Earmarked Accumulated absences account	Revaluation Reserve	Total Usable reserves	Total Unusable reserves	Total Reserves		
<b>Balance as at 31 December 2017</b>	28,261	85	1,696	10,327	(25,571)	(111)	0	30,042	(15,355)	14,687		
<b>Movement in Reserves during 2018</b>												
Surplus or (Deficit) on Operations	(2,189)							(2,189)	0	(2,189)		
Other Comprehensive Income					1,829		156	0	1,985	1,985		
<b>Total Comprehensive Expenditure and Income</b>	(2,189)	0	0	0	1,829	0	156	(2,189)	1,985	(204)		
Adjustments between accounting basis and funding basis under regulation								0	0	0		
<b>Net Increase / (Decrease) before transfer to Earmarked Reserves</b>	(2,189)	0	0	0	1,829	0	156	(2,189)	1,985	(204)		
Transfer (to) / from Earmarked Reserves	3,528		(1,086)	298	(2,751)	11	0	2,442	(2,442)	0		
<b>Increase / (Decrease) in Movement in Year</b>	1,339	0	(1,086)	298	(922)	11	156	253	(457)	(204)		
<b>Balance as at 31 December 2018</b>	29,600	85	610	10,625	(26,493)	(100)	156	30,295	(15,812)	14,483	13	

\*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The costs, which were funded through the Internal Investment Reserve, were for the first installment of new warehouse equipment and were expensed against the Profit and Loss account. The re-statement has reduced both the deficit on the provision of service and the transfer between the General fund and CAA. The net result of the adjustment is an increase in the closing balances of the CAA and Total Reserves by £41K.

# Comprehensive Income and Expenditure Account

Re-stated 2017 £'000		2018 £'000	<u>Note</u>
110,965	<i>Invoiced Turnover</i>	112,881	1(b),6
<u>(80,316)</u>	<i>Cost of Sales</i>	<u>(81,239)</u>	
30,649	<i>Gross Margin</i>	31,642	
128	Discounts	137	
5,299	Rebates	4,773	1(b),6
2,216	Other Income	1,990	1(b),6
<u>38,292</u>	<i>Gross Surplus</i>	<u>38,542</u>	
	<i>Operating Expenses</i>		
(18,001)	Employees	(17,719)	
(1,224)	Premises	(984)	
(6,809)	Supplies and Services	(7,051)	
(4,608)	Transport	(4,685)	
(127)	S.L.A. Costs	(127)	
(267)	Financial and Miscellaneous	(16)	
(270)	Depreciation and revaluation increase/(decrease)	(191)	1(e),8
(1,909)	Pension service gain(cost) net of charges made to the general fund	(2,138)	1(h),7
<u>(33,214)</u>	<i>Net Operating Expenditure</i>	<u>(32,912)</u>	
<u>5,078</u>	<i>Surplus/(deficit) on trading operations</i>	<u>5,630</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>		
(783)	Pensions Interest Cost and Expected Return on Pension Assets	(613)	1(h),7
17	Interest Receivable	47	
(7,864)	Dividend paid	(7,253)	
<u>(8,629)</u>		<u>(7,820)</u>	
<u>(3,552)</u>	<i>Surplus/(Deficit) on provision of service</i>	<u>(2,189)</u>	
	<i>Other Comprehensive income and expenditure</i>		
7,016	Actuarial gains / (losses) on pension assets / liabilities	1,829	
0	Gains / (losses) on revaluations of PPE and depreciation	156	
<u>7,016</u>		<u>1,985</u>	
<u>3,464</u>	<i>Total comprehensive Income and Expenditure</i>	<u>(204)</u>	

\*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The costs, which were funded through the Internal Investment Reserve, were for the first installment of new warehouse equipment and were expensed against the Profit and Loss account. The re-statement has reduced the operating expenditure in the year by £41K and therefore subsequently increased the surplus/(deficit)s on trading operations and provision of service and the Total comprehensive Income and Expenditure by the same amount.

## BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2018 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

Re-stated 31st Dec 2017 £'000		31st Dec 2018 £'000	Note
<b>ASSETS AND LIABILITIES</b>			
<b>Long term Assets</b>			
<b>Property, Plant and Equipment</b>			
9,000	Land and Buildings	9,228	1(e),8
653	Vehicles, Furniture & Equipment	1,029	1(e),8
<u>0</u>	Intangible Assets	<u>70</u>	1(e),8
<b><u>9,653</u></b>	<b>Total Long Term Assets</b>	<b><u>10,328</u></b>	
<b>Current Assets</b>			
12,749	Inventories	14,456	1(m),9
14,654	Short term debtors	13,137	1(u),10
<u>11,183</u>	Cash and cash equivalents	<u>9,954</u>	
<b><u>38,587</u></b>	<b>Total Current Assets</b>	<b><u>37,547</u></b>	
<u>0</u>	<b>Debtors: Amounts due after more than one year</b>	<u>500</u>	
<b>Current Liabilities</b>			
<u>(7,982)</u>	Short term creditors	<u>(7,247)</u>	1(v),11
<b><u>(7,982)</u></b>	<b>Total Current Liabilities</b>	<b><u>(7,247)</u></b>	
<b><u>30,605</u></b>	<b>Net Current Assets</b>	<b><u>30,300</u></b>	
<b>Long term Liabilities</b>			
0	Liability relating to Finance Leases	(151)	
<u>(25,571)</u>	Liability relating to Defined Benefit Pension Scheme	<u>(26,493)</u>	1(h),7
<b><u>14,687</u></b>	<b>Net Assets</b>	<b><u>14,483</u></b>	
<b>Financed by:</b>			
<b>Usable Reserves</b>			
28,261	General Fund	29,600	
85	Usable Capital Receipts Reserve	85	1(g),13
1,696	Internal Investment reserve	610	1(g),13
<b>Unusable Reserves</b>			
10,327	Joint Committee Capital Adjustment Account	10,625	1(g),13
<u>(25,571)</u>	Pension Reserve	<u>(26,493)</u>	1(h),7,13
<u>(111)</u>	Earmarked Accumulated Absences Account	<u>(100)</u>	1(g),13
<u>0</u>	Revaluation Reserve	<u>156</u>	1(g),13
<b><u>14,687</u></b>	<b>Total Reserves</b>	<b><u>14,483</u></b>	

\*2017 has been re-stated to increase Capital Expenditure in the year by £41K. The re-statement has increased the value of Vehicles, Furniture and Equipment within Fixed Assets by £41K and also increased the closing balance of the Joint Committee Capital Adjustment Account by £41K.

## 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.

### Re-stated

	2017 £'000		2018 £'000
	<b>(3,552)</b>	<b>Net surplus/(deficit) on the provision of service</b>	<b>(2,189)</b>
		<b>Adjustment to the net surplus/(deficit) for non cash movements</b>	
	270	Depreciation and revaluation increase/(decrease)	177
	(537)	(Increase)/Decrease in Inventories	(1,707)
	(2,301)	(Increase)/Decrease in Debtors	1,517
	2,692	(Increase)/Decrease in Pension Liability	2,751
	439	Increase/(Decrease) in Creditors	(790)
	(1,212)	Redemption of loyalty vouchers	(1,132)
	<b>(650)</b>		<b>817</b>
		<b>Adjustments for items included in the net surplus/(deficit) that are financing/investing activities</b>	
	7,864	Proceeds from sale of PPE	7,253
	<b>7,864</b>	Dividend payment	<b>7,253</b>
	<b>3,662</b>	<b>Net cash flows from operating activities</b>	<b>5,881</b>
		<b>Investing Activities</b>	
	(41)	Purchase of PPE	(489)
	0	Proceeds from Sale of PPE	0
	<b>(41)</b>		<b>(489)</b>
		<b>Financing Activities</b>	
	0	Loans issued	(500)
	(6,651)	Dividends paid to Members	(6,122)
	<b>(6,651)</b>		<b>(6,622)</b>
	<b>(3,031)</b>	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(1,229)</b>
	14,214	Cash and Cash Equivalents at the beginning of the reporting period	11,183
	<b>11,183</b>	<b>Cash and Cash Equivalents at the end of the reporting period</b>	<b>9,954</b>

Note on operating activities		
	The cash flows from operating activities include the following items	
17	Interest Receivable	47
<b>17</b>		<b>47</b>

*\*2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has reduced the net deficit on the provision of service by £41K and therefore increased the net cash flows from operating activities by £41K. The purchase of PPE within investing activities has also increased by £41K resulting in the net decrease in cash for the year remaining unchanged.*

## 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 2017/18 and Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

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

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

The following policies have been adopted in compiling the accounts:

Fundamental Accounting Concepts:

- The accounts have been prepared on a historical cost basis, except that certain categories of assets are re-valued at regular intervals.
- The revenue and capital accounts are maintained on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received. Income is also matched with associated costs and expenses as far as the relationship can be established or justifiably assumed.
- Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.
- Income has only been recognised within the accounts where there is a reasonable certainty, and proper allowances have been made for all foreseeable losses and liabilities.
- The accounts have been prepared on a going concern basis.
- The accounting statements have been prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than their formal legal character.
- As allowed under the Code the concept of materiality has been utilised in the process of preparing the accounts, such that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.
- Where estimating techniques are required to enable the accounting practices adopted to be applied, the techniques which have been used are, in YPOs view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, where practical, the effect on the results for the current period are separately disclosed, Note 4 to the core financial statements provides further details.
- In accordance with the Code, where an accounting treatment is prescribed by law, then it has been applied, even if it contradicts accounting standards or generally accepted accounting concepts.

#### **a. ACCRUALS OF INCOME AND EXPENDITURE**

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

#### **b. TURNOVER**

Turnover is the value of invoiced sales during the year, adjusted for the value of deliveries prepared to 31st December for which invoices were not raised until January. Rebates refer to the value of commission earned on contractual activity in the year. Other income includes marketing support for catalogue production and promotion.

#### **c. OVERHEADS**

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

#### **d. COMPONENTISATION OF NON CURRENT ASSETS**

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

Capital expenditure is monitored throughout the year and included in the budget and business planning process to identify

## Notes to the Core Financial Statements

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.

### **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 30th November 2018, 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	2018
41 Industrial Park	43 years
Flanshaw Way	39 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.

## Notes to the Core Financial Statements

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

### **g. RESERVES**

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

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

### **h. EMPLOYEE BENEFITS**

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

#### **Benefits payable during employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at 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 2.9% on funded liabilities and 2.9% 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.

## Notes to the Core Financial Statements

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

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

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

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Organisation to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

### **Discretionary Benefits**

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

### **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**

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

### **m. INVENTORIES**

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

### **n. LEASES**

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

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

## Notes to the Core Financial Statements

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

### **o. CONTINGENT LIABILITIES & ASSETS**

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

### **p. PROVISIONS**

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

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

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

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

### **q. FINANCIAL INSTRUMENTS**

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

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

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

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 investments made with other local authorities which earn a fixed interest rate over a specific term, usually for a period of 6 to 12 months.

## Notes to the Core Financial Statements

### **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 2017/18 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 2019 Statement of Accounts.

### **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

#### **Leasing**

The Organisation has reviewed all classes of leases held by the Organisation and concluded that all existing leases to the 31st December 2017 constitute operating leases and therefore have no impact on the re-statement to and IFRS basis of accounting. In 2018 a lease agreement for the supply of IT equipment has been classified as a Finance lease due to all the risks and rewards relating to the leased equipment transferring to YPO, details of this lease are included within note 15 of this statement.

#### **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.

## Notes to the Core Financial Statements

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 £2.158m.

### Framework Contract Income

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

Whilst every effort is made by the Organisation to accurately forecast balances due to the Organisation as at the year end, there is a risk that returns on these contracts may either exceed or be less than the estimate made at the date of the closure of the accounts. The impact on the statements in the following year will be dependent on the mix of positive and negative variances against estimates. If the estimate of income due was to be different by 10% this would represent a movement of around £171K.

### 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 2019 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 2018 was £112.9m, £0.9m above the budget for the year and up on last year by £2m.

There has been an adverse impact on rebate income in the year of £0.513m due to an over accrual of expected income in the 2017 year end accounts.

Third party carrier costs were £0.374m over budget due to a combination of Driver's sickness and higher stock sales. Both of which resulted in a greater number of consignments being fulfilled by external parties.

Stock take adjustments were over budget by £0.518m due to the introduction of our Perpetual Inventory team and an increased number of stock counts in the year. This overspend was offset by a general contingency within the budget, this contingency was included to ease the pressures of our future proofing programme which had initially removed £2m from our overheads budget.

An agreed dividend distribution of £7.492m for the trading year 2017 was distributed in September 2018. This distribution included all customers. As at the 31st December 2018 there was a balance of £373K 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.

## Notes to the Core Financial Statements

### 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 December 2018 was 14.4%. Employees contributions in 2018 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
	2017	2017	2017	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Service</b>						
Current Service Cost	3,662	0	3,662	4,012	0	4,012
Past Service (Gain)/Cost	20	0	20	155	0	155
Curtailment (Gain)/Loss	0	0	0	0	0	0
<b>Financing and investment income and Expenditure</b>						
Net interest Expense	758	25	783	591	22	613
<b>Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services</b>	<b>4,440</b>	<b>25</b>	<b>4,465</b>	<b>4,758</b>	<b>22</b>	<b>4,780</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>						
<b>Remeasurement of the net defined benefit liability</b>						
Return on plan assets (gains)/losses	(7,387)	0	(7,387)	6,731	0	6,731
Actuarial (Gains) and losses-demographic assumptions	(3,311)	(22)	(3,333)	0	0	0
Actuarial (Gains) and losses-experience	(2,131)	(7)	(2,138)	415	7	422
Actuarial (Gains) and losses-financial assumptions	5,827	15	5,842	(8,953)	(29)	(8,982)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(2,562)</b>	<b>11</b>	<b>(2,551)</b>	<b>2,951</b>	<b>0</b>	<b>2,951</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the comprehensive Income and Expenditure account for post employment benefits in accordance with the Code	(4,440)	(25)	(4,465)	(4,758)	(22)	(4,780)
Actual amount charged against the General Fund balance for pensions in the year:						
- employer's contributions to the pension scheme	1,710		1,710	1,967		1,967
-retirement benefits payable to pensioners		63	63		62	62
<b>Total Charge against the General fund</b>	<b>(2,730)</b>	<b>38</b>	<b>(2,692)</b>	<b>(2,791)</b>	<b>40</b>	<b>(2,751)</b>

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

	Males		Females	
	2017	2018	2017	2018
Rating to base table	0	0	0	0
Scaling to base table rates (Current)	100%	105%	90%	90%
Scaling to base table rates (Future)	115%	115%	90%	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)	22.1	22.1	25.2	25.3
Future lifetime from age 65 (currently aged 45)	23	23.1	27	27.1

## Notes to the Core Financial Statements

### 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	
	2017	2018	2017	2018
	£000s	£000s	£000s	£000s
<b>Recognised in the Balance Sheet</b>				
Fair value of assets	94,471	89,062	0	0
Present value of the defined benefit obligation	(119,120)	(114,695)	(922)	(860)
<b>Net liability arising from defined benefit obligation</b>	<b>(24,649)</b>	<b>(25,633)</b>	<b>(922)</b>	<b>(860)</b>

### 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.

	2017	2018
	£'000	£'000
Balance at 1st January	85,381	94,471
Interest income	2,298	2,350
Remeasurement gains/ (losses) on assets	7,387	(6,731)
Employer contributions	1,710	1,967
Contributions by scheme participants	834	810
Benefits paid	(3,139)	(3,805)
<b>Balance at 31st December</b>	<b>94,471</b>	<b>89,062</b>

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

	Funded Liabilities		Unfunded Liabilities	
	2017	2018	2017	2018
	£'000	£'000	£'000	£'000
Balance at 1st January	(114,302)	(119,120)	(974)	(922)
Current Service Cost	(3,662)	(4,012)		
Interest Cost	(3,056)	(2,941)	(25)	(22)
Contributions by scheme participants	(834)	(810)		
Remeasurement gains and (losses)				
<i>Actuarial gains and (losses) - demographic assumptions</i>	3,311	0	22	0
<i>Actuarial gains and (losses) - financial assumptions</i>	(5,827)	8,953	(15)	29
<i>Actuarial gains and (losses) - experience</i>	2,131	(415)	7	(7)
Benefits paid	3,139	3,805	63	62
Past service costs and curtailments	(20)	(155)		
<b>Balance at 31st December</b>	<b>(119,120)</b>	<b>(114,695)</b>	<b>(922)</b>	<b>(860)</b>

### Local Government Pension Scheme Assets

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

	Assets held	
	2017	2018
Equity investments	77.30%	74.60%
Property	4.50%	4.20%
Bonds	13.10%	14.30%
Other assets *	5.10%	6.90%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

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

## 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	
	2017	2018	2017	2018
Mortality assumptions				
Longevity at 65 for future pensioners				
Men	23.0 years	23.1 years		
Women	27.0 years	27.1 years		
Longevity at 65 for current pensioners				
Men	22.1 years	22.1 years	22.1 years	22.1 years
Women	25.2 years	25.3 years	25.2 years	25.3 years
Rate of Inflation (RPI)	3.30%	3.30%	3.30%	3.30%
Rate of Inflation (CPI)	2.20%	2.20%	2.20%	2.20%
Rate of Increase in Salaries	3.45%	3.45%	-	-
Rate of Increase in Deferred Pensions	2.20%	2.20%	-	-
Rate of Increase in Pensions	2.20%	2.20%	2.20%	2.20%
Rate for discounting scheme liabilities	2.50%	2.90%	2.50%	2.90%
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

	Increase in Assumption £000	Decrease in Assumption £000
Member Life expectancy (+ or - 1 year)	3,365	(3,380)
Rate of increase in salaries (+ or - 0.1%)	549	(543)
Rate of increase in pensions (+ or - 0.1%)	1,645	(1,620)
Rate for discounting scheme liabilities (+ or - 0.1%)	(2,158)	2,199

### 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 £26,493k 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 2019 are £1.877m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2019 are £0.064m.

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 2018, the Organisation held the following assets

Property plant and equipment were predominantly represented by 43 Delivery vehicles (2017 = 43), 67 Container units (2017 = 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 2017).

*\*2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has added £41K to the additions of Furniture & Equipment in 2017 and as a result increased the closing cost and net book value balances for Furniture & Equipment and Total Fixed Assets as at the 31st December 2018 by £41K.*

#### Property Plant and Equipment

##### Cost or valuation

Opening balance 1 January 2018 Re-stated  
 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 2018**

##### Depreciation and impairments

Opening balance 1 January 2018  
 Charge for depreciation 2018  
 Disposals  
 Impairment  
 Acc depreciation write out to gross carrying amount  
 Depreciation written out to I&E

**At 31 December 2018**

**Net Book Value at 31 December 2018**

**Net Book Value at 1 January 2018 Re-stated**

#### 2017 Comparative Re-stated

#### 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 - Re-stated  
 Impairment  
 Disposals

**At 31 December 2017 Re-stated**

##### Depreciation and impairments

Opening balance 1 January 2017  
 Charge for depreciation 2017  
 Disposals  
 Impairment  
 Acc depreciation write out to gross carrying amount  
 Revaluation

**At 31 December 2017**

**Net Book Value at 31 December 2017 Re-stated**

**Net Book Value at 1 January 2017**

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2018 Re-stated	9,000	780	925	3,336	14,040
Acc depreciation write out to gross carrying amount				0	0
Revaluation increase / (decrease) recognised in the Revaluation Reserve	156	0	0	0	156
Revaluation increase / (decrease) recognised in the I&E	72	0	0	0	72
Additions	0	72	220	343	635
Impairment					
Disposals					
<b>At 31 December 2018</b>	<b>9,228</b>	<b>851</b>	<b>1,145</b>	<b>3,679</b>	<b>14,903</b>
Opening balance 1 January 2018	0	478	881	3,028	4,387
Charge for depreciation 2018	162	47	31	181	420
Disposals		0	0	0	0
Impairment		0	0	0	0
Acc depreciation write out to gross carrying amount	(162)			0	(162)
Depreciation written out to I&E		0	0	0	0
<b>At 31 December 2018</b>	<b>0</b>	<b>525</b>	<b>912</b>	<b>3,209</b>	<b>4,646</b>
<b>Net Book Value at 31 December 2018</b>	<b>9,228</b>	<b>326</b>	<b>233</b>	<b>470</b>	<b>10,257</b>
<b>Net Book Value at 1 January 2018 Re-stated</b>	<b>9,000</b>	<b>301</b>	<b>44</b>	<b>308</b>	<b>9,653</b>

	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	0
Revaluation increase / (decrease) recognised in the Revaluation Reserve		0	0	0	0
Revaluation increase / (decrease) recognised in the I&E	-58	0	0	0	(58)
Additions - Re-stated	0	41	0	0	41
Impairment					
Disposals					
<b>At 31 December 2017 Re-stated</b>	<b>9,000</b>	<b>780</b>	<b>925</b>	<b>3,336</b>	<b>14,040</b>
Opening balance 1 January 2017	0	436	864	2,915	4,215
Charge for depreciation 2017	157	42	17	112	329
Disposals		0	0	0	0
Impairment		0	0	0	0
Acc depreciation write out to gross carrying amount				0	0
Revaluation	-157	0	0	0	(157)
<b>At 31 December 2017</b>	<b>0</b>	<b>478</b>	<b>881</b>	<b>3,028</b>	<b>4,387</b>
<b>Net Book Value at 31 December 2017 Re-stated</b>	<b>9,000</b>	<b>301</b>	<b>44</b>	<b>308</b>	<b>9,653</b>
<b>Net Book Value at 1 January 2017</b>	<b>9,058</b>	<b>302</b>	<b>61</b>	<b>421</b>	<b>9,842</b>

## Notes to the Core Financial Statements

### 8a. Intangible Assets

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

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

	2017	2018
	Intangible Assets £'000	Intangible Assets £'000
<b>Cost or valuation</b>		
Opening balance 1 January	118	118
Additions		75
Impairment		
Disposals		
<b>At 31 December</b>	<b>118</b>	<b>192</b>
<b>Amortisation and impairments</b>		
Opening balance 1 January	88	118
Amortisation charge for the year	30	4
Impairment		
Disposals		
<b>At 31 December</b>	<b>118</b>	<b>122</b>
<b>Net Book Value at 31 December</b>	<b>0</b>	<b>70</b>
<b>Net Book Value at 1 January</b>	<b>30</b>	<b>0</b>

### 9. Inventories

31st Dec 2018	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	12,813	36	12,849
Purchases	62,580	412	62,992
Recognised as an expense in year	(60,683)	(274)	(60,957)
Increase / (Decrease) in Stock in Transit accrual	(181)	-	(181)
Reversals of write offs in previous years	0	-	0
<b>Closing Inventory balance</b>	<b>14,529</b>	<b>174</b>	<b>14,703</b>
Provision for stock write off	(247)	0	(247)
<b>Closing Inventory balance net of provisions made</b>	<b>14,282</b>	<b>174</b>	<b>14,456</b>

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 / (Decrease) in Stock in Transit accrual	164	-	164
Reversals of write offs in previous years	0	-	0
<b>Closing Inventory balance</b>	<b>12,813</b>	<b>36</b>	<b>12,849</b>
Provision for stock write off	(100)	0	(100)
<b>Closing Inventory balance net of provisions made</b>	<b>12,713</b>	<b>36</b>	<b>12,749</b>

## Notes to the Core Financial Statements

### 10. DEBTORS AND PAYMENTS IN ADVANCE

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

#### Debtors: Amounts due within one year

Trade Debtors	
Accumulated Absences	
Less - Provision for Bad Debts	
Payments in Advance and accrued income	
<b>Total</b>	

31st Dec 2017	31st Dec 2018
£'000	£'000
9,681	8,842
7	4
(112)	(128)
9,576	8,718
5,078	4,419
14,654	13,137

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 2017	31st Dec 2018
£'000	£'000
0	0
5,931	5,491
19	11
0	0
3,730	3,340
9,681	8,842

#### 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).	

-	-
-	-
-	-
-	-
5,078	4,419
5,078	4,419

#### Debtors: Amounts due after more than one year

Loans Receivable	
<b>Total</b>	

31st Dec 2017	31st Dec 2018
£'000	£'000
0	500
0	500

### 11. CREDITORS AND RECEIPTS IN ADVANCE

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

#### Creditors and Receipts in Advance

Trade Creditors	
Accruals	
Finance Leases	
VAT	
Accumulated absences	
<b>Total</b>	

31st Dec 2017	31st Dec 2018
£'000	£'000
5,212	5,162
2,455	1,644
0	55
197	283
118	104
7,982	7,247

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 2017	31st Dec 2018
£'000	£'000
-	-
38	83
5,174	5,079
5,212	5,162

#### Accruals / Leases / 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).	

197	283
642	632
-	-
-	-
1,931	1,171
2,770	2,085

## Notes to the Core Financial Statements

### Long Term Liabilities

Finance Leases
Liability relating to Defined Benefit Pension Scheme
<b>Total</b>

31st Dec 2017	31st Dec 2018
£'000	£'000
0	151
25,571	26,493
<b>25,571</b>	<b>26,644</b>

### 12. RISK TO FINANCIAL INSTRUMENTS

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

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

Investments represent cash deposits made with other local authorities which earn a fixed interest rate agreed at the time of investment and are for a fixed term. Risks arise in the form of banking failures within the UK. As at the 31st December the sum of £5m was invested with various local authorities. All investments are repayable in 2019.

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

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 :-

	2017	2018
	£'000	£'000
Two to six months	2,843	2,458
Six months to one year	216	456
More than one year	111	239
<b>Total</b>	<b>3,170</b>	<b>3,153</b>

A general provision of £128k (2017 £112k) has been included against all debtors. Bad debt calculations are based on the debtor type and agreed upon with the Sales Ledger Manager.

Loans receivable constitute a loan issued in July 2018 to one of our related parties for £500K. The risk is that the related party becomes insolvent and is unable to pay back the capital and interest elements of the loan. As at the 31st December 2018 the full capital amount, plus the accrued daily interest of 3% above the Bank of England base rate, is still outstanding.

The risks associated with our loans receivable are managed by the close monitoring of the borrower's financial performance and balance sheet position on a monthly basis. This allows for any potential credit risks to be identified as soon as possible and actions put in place to prevent the risks from materialising.

## Notes to the Core Financial Statements

### 13. MOVEMENTS IN RESERVES

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

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

Reserve	Re-stated 31st Dec 2017 £'000	31st Dec 2018 £'000	Net Movement in the Year £'000	Note
<u>Usable reserves</u>				
General Fund Balance	28,261	29,600	1,339	i
Capital Receipts Reserve	85	85	0	ii
Internal Investment Reserve	1,696	610	(1,086)	iii
<u>Unusable reserves</u>				
Joint Committee Capital Adjustment Account	10,327	10,625	298	iv
Earmarked Pension reserve	(25,571)	(26,493)	(922)	v
Earmarked Accumulated Absences Account	(111)	(100)	11	vi
Revaluation reserve	0	156	156	vii
<b>Total reserves</b>	<b>14,687</b>	<b>14,483</b>	<b>(204)</b>	

\*2017 has been re-stated to increase Capital Expenditure in the year by £41K, the costs had been expensed against the Profit and Loss Account. The re-statement has reduced the deficit on Operations within the General fund by £41K and also reduced the transfer between the General fund and CAA by £41K. The net result is an increase in the closing balances of the CAA and Total Reserves by £41K as the 31st December 2017.

(i) To protect the Organisation against unforeseen events and the realisation of contingent liabilities. Included within the overall General Fund balance is the Financial Stability Fund which as at 31st December 2018 had a balance of £1m.

	Re-stated 2017 £'000	2018 £'000
<b>General fund balance</b>		
Balance brought Forward 1st of January	28,818	28,261
Surplus or deficit on operations	(3,552)	(2,189)
<b>Total comprehensive income and expenditure</b>	<b>(3,552)</b>	<b>(2,189)</b>
Depreciation and impairment	270	191
Revaluation losses (gains)		
Capital expenditure charged to the GF	(41)	(489)
Transfer of cash sale proceeds		
Use of UCRR to fund capital expenditure		
Reversal of IAS 19 charges to I&E	4,465	4,780
Employer's pension contributions	(1,773)	(2,029)
Movement in employee absence accrual	0	(11)
<b>Total voluntary adjustments</b>	<b>2,920</b>	<b>2,442</b>
Pension Contribution Reserve	-	-
Internal Investment Reserve	74	1,086
<b>Total transfers to/from cash reserves</b>	<b>74</b>	<b>1,086</b>
<b>Total transfers to/from earmarked reserves</b>	<b>2,995</b>	<b>3,528</b>
<b>Balance Carried Forward 31st December</b>	<b>28,261</b>	<b>29,600</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(557)</b>	<b>1,339</b>

## Notes to the Core Financial Statements

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

	2017 £'000	2018 £'000
<b>Usable Capital Receipts Reserve</b>		
Balance brought Forward 1st of January	85	85
<b>Amounts Received</b>		
General receipts	-	-
<b>Amounts Applied</b>		
New Capital Investment	-	-
<b>Balance Carried Forward 31st December</b>	<b>85</b>	<b>85</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>-</b>	<b>-</b>

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

	2017 £'000	2018 £'000
<b>Internal Investment Reserve</b>		
Balance brought Forward 1st of January	1,770	1,696
<b>Transferred to Reserves</b>		
Reserves for specific projects created in year	455	392
<b>Amounts Applied</b>		
Reserve balances utilised in year	(529)	(1,478)
<b>Amounts released back to the General Fund</b>		
Reserve balances no longer required and released back to the General Fund		
<b>Balance Carried Forward 31st December</b>	<b>1,696</b>	<b>610</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(74)</b>	<b>(1,086)</b>

(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.

	Re-stated 2017 £000	2018 £000
<b>Joint Committee Capital Adjustment Account</b>		
Balance brought Forward 1st of January	10,545	10,327
Brought Forward adjustment		
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation and impairment of non-current assets	(270)	(191)
Revaluation (losses) gains on property plant and equipment	10	0
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
	10,285	10,136
<b>Net Written out amount of the cost of non-current assets consumed in the year</b>		
<b>Capital financing applied in the year</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-
Capital expenditure charged against the General Fund	41	489
	10,327	10,625
<b>Balance Carried Forward 31st December</b>	<b>10,327</b>	<b>10,625</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(218)</b>	<b>298</b>

## Notes to the Core Financial Statements

(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.

	2017 £000	2018 £000
<b>Earmarked Pension Reserve</b>		
Balance bought forward 1st January	(29,895)	(25,571)
Actuarial Gains or (losses) on pension assets and Liabilities	7,016	1,829
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,465)	(4,780)
Employers pensions contributions and direct payments to pensioners payable in year	1,773	2,029
<b>Balance Carried Forward 31st December</b>	<b>(25,571)</b>	<b>(26,493)</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>4,324</b>	<b>(922)</b>

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

	2017 £000	2018 £000
<b>Earmarked Accumulated Absences Account</b>		
Balance bought forward 1st January	(111)	(111)
Settlement or cancellation of accrual made in preceding year	111	111
Amount to be accrued for current year	(111)	(100)
Amount to be charged to the Comprehensive Income and Expenditure Statement	0	11
<b>Balance as at 31st December</b>	<b>(111)</b>	<b>(100)</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>0</b>	<b>11</b>

(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

	2017 £000	2018 £000
<b>Revaluation Reserve</b>		
Balance bought Forward 1st of January	0	0
Upward revaluation of assets	-	0
Difference between fair value depreciation and historical cost depreciation	0	0
Revaluation written out to the General Fund	0	156
Adjusting amounts written out of the Joint Committee Capital Adjustment Account		
<b>Balance Carried Forward 31st December</b>	<b>0</b>	<b>156</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>0</b>	<b>156</b>

## Notes to the Core Financial Statements

### 14. EMPLOYEE EMOLUMENTS

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

REMUNERATION BAND £	No of Employees	
	2017	2018
50,000 - 54,999	8	6
55,000 - 59,999	4	3
60,000 - 64,999	3	3
65,000 - 69,999	-	2
70,000 - 74,999	1	1
75,000 - 79,999	1	-
<b>TOTAL</b>	<b>17</b>	<b>15</b>

The table below sets out the remuneration disclosure (Board of Directors) whose salary is £50,000 per year or more by job title. Comparative figures for 2017 are also shown and these officers are excluded from the above table.

2018						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	129,790	-	-	-	18,071	147,861
Deputy Managing Director	100,186	-	-	-	13,776	113,962
Executive Director	96,059	-	-	-	13,056	109,115
Executive Director	91,879	-	-	-	13,056	104,935
	417,914	-	-	-	57,959	475,873

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

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

EXIT PACKAGE £	No. of compulsory Redundancies		No. of other Redundancies		Total no. of Exit Packages		Total cost of Exit Packages	
	2017 No.	2018 No.	2017 No.	2018 No.	2017 No.	2018 No.	2017 £,000's	2018 £,000's
0 - 20,000	-	-	8	3	8	3	55	15
20,001 - 40,000	-	-	3	-	3	-	90	-
40,001 - 60,000	-	-	-	1	-	1	-	41
60,001 - 80,000	-	-	-	-	-	-	-	-
80,000 and over	-	-	1	1	1	1	139	111
<b>Total</b>	-	0	12	5	12	5	284	167

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

## Notes to the Core Financial Statements

### 15. LEASES

#### Finance Leases

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

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

	2017 £000	2018 £000
<b>Vehicles, Furniture and Equipment</b>	0	206

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

	2017 £000	2018 £000
<b>Finance Lease Liabilities (net present value of minimum lease payments)</b>		
Due within one year	0	55
Due after one year and not later than five years	0	151
Finance costs payable in future years	0	7
<b>Minimum lease payments</b>	<b>0</b>	<b>213</b>

The minimum lease payments will be payable over the following periods

	Minimum Lease Payments		Finance Lease Liabilities	
	2017 £000	2018 £000	2017 £000	2018 £000
Not later than one year	0	57	0	55
Later than one year and not later than five years	0	156	0	151
Later than five years	0	0	0	0
	<b>0</b>	<b>213</b>	<b>0</b>	<b>206</b>

#### Operating Leases

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

	2017 £000	2018 £000
Not later than one year	293	264
Later than one year and not later than five years	411	401
Later than five years	2,204	2,117
	<b>2,908</b>	<b>2,782</b>

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2018 were £473k (2017 £500k) 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.

## Notes to the Core Financial Statements

2017 £'000	YPO Profit & Loss	2018 £'000
	<b>Trading</b>	
71,111	Stores	73,480
15,171	Food	14,211
24,684	Directs	25,190
<b>110,965</b>	<b>Total Invoiced Sales</b>	<b>112,881</b>
<b>(80,316)</b>	Cost of Sales	<b>(81,239)</b>
<b>30,649</b>	<b>Gross Margin</b>	<b>31,642</b>
128	Discounts	137
5,299	Rebates	4,773
2,216	Other Income	1,990
<b>38,292</b>	<b>Total Income</b>	<b>38,542</b>
	<b>Operating Costs</b>	
<b>(17,976)</b>	Employment costs	<b>(17,590)</b>
<b>(1,117)</b>	Premises	<b>(956)</b>
<b>(6,453)</b>	Supplies and Services	<b>(6,223)</b>
<b>(4,608)</b>	Transport	<b>(4,681)</b>
<b>(127)</b>	SLA costs	<b>(127)</b>
<b>(267)</b>	Financial & Misc	<b>(16)</b>
<b>(270)</b>	Depreciation	<b>(425)</b>
<b>(30,817)</b>	<b>Total Operating Costs</b>	<b>(30,018)</b>
17	Interest (payable)/receivable	47
-	Profit/(loss) on disposal of assets	-
-	Dividend paid	-
-	Pension costs	-
<b>7,492</b>	<b>Surplus or (deficit)</b>	<b>8,571</b>

2017 £'000	Reconciliation of P&L Account to I&E Account	2018 £'000
7,492	Net Profit in P&L Account	8,571
<b>(11,044)</b>	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	<b>(10,760)</b>
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
<b>(3,552)</b>	<b>Surplus/(Deficit) on provision of service</b>	<b>(2,189)</b>

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

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

YPO Profit & Loss 2018	P&L Acct £'000	Amts not rptd for mgt dec making £'000	Alloc'n of reporting expenses £'000	I&E Statement £'000
<b>Total Invoiced Sales</b>	<b>112,881</b>		-	<b>112,881</b>
Cost of Sales	<b>(81,239)</b>		-	<b>(81,239)</b>
<b>Gross Margin</b>				
Discounts	137		-	137
Rebates	4,773		-	4,773
Other Income	1,990		-	1,990
<b>Total Income</b>	<b>38,542</b>	<b>0</b>	-	<b>38,542</b>
<b>Operating Costs</b>				
Employment costs	<b>(17,590)</b>		-	<b>(17,590)</b>
Premises	<b>(956)</b>		-	<b>(956)</b>
Supplies and Services	<b>(6,223)</b>		-	<b>(6,223)</b>
Transport	<b>(4,681)</b>		-	<b>(4,681)</b>
SLA costs	<b>(127)</b>		-	<b>(127)</b>
Financial & Misc	<b>(16)</b>		-	<b>(16)</b>
Depreciation	<b>(425)</b>		-	<b>(425)</b>
<b>Total Operating Costs</b>	<b>(30,018)</b>	<b>0</b>	-	<b>(30,018)</b>
Interest (payable)/receivable	47		-	47
Profit/(loss) on disposals			-	0
Revaluation gains / (losses)		233	-	233
Dividend paid		<b>(7,253)</b>	-	<b>(7,253)</b>
Earmarked reserves funding		<b>(989)</b>	-	<b>(989)</b>
Pension costs		<b>(2,751)</b>	-	<b>(2,751)</b>
<b>Surplus or (deficit) on provision of service</b>	<b>8,571</b>	<b>(10,760)</b>	-	<b>(2,189)</b>

## Notes to the Core Financial Statements

YPO Profit & Loss 2017	P&L Acct £'000	Amts not rptd for mgt dec making £'000	Alloc'n of reporting expenses £'000	I&E Statement £'000
<b>Total Invoiced Sales</b>	<b>110,965</b>		-	<b>110,965</b>
Cost of Sales	(80,316)		-	(80,316)
<b>Gross Margin</b>				0
Discounts	128		-	128
Rebates	5,299		-	5,299
Other Income	2,216		-	2,216
<b>Total Income</b>	<b>38,292</b>	<b>0</b>	-	<b>38,292</b>
<b>Operating Costs</b>				
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)
<b>Total Operating Costs</b>	<b>(30,817)</b>	<b>0</b>	-	<b>(30,817)</b>
Interest (payable)/receivable	17		-	17
Profit/(loss) on disposals			-	0
Revaluation gains / (losses)			-	0
Dividend paid		(7,864)	-	(7,864)
Earmarked reserves funding		(488)	-	(488)
Pension costs		(2,692)	-	(2,692)
<b>Surplus or (deficit) on provision of service</b>	<b>7,492</b>	<b>(11,044)</b>	-	<b>(3,552)</b>

### 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 65 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:

	2017 Re-Stated £'000	2018 £'000
Barnsley MBC	16,003	15,813
Bolton MBC	10,633	10,637
Bradford MDC	23,831	23,690
City of York	6,896	6,819
Doncaster MBC	13,541	13,502
Kirklees MC	27,420	27,481
Knowsley MBC	9,238	9,259
MB of Calderdale	10,853	10,792
North Yorkshire CC	19,189	18,666
Rotherham MBC	11,787	11,753
St Helens MBC	10,874	10,892
Wakefield MdC	20,071	20,212
Wigan MBC	13,227	13,212
	<b>193,562</b>	<b>192,728</b>

2017's related party transactions have been re-stated due to the framework activity spend for each member in 2017 only being confirmed after the final accounts had been prepared. 2018's value of transactions include the final framework spend activity for 2017 as at the time of preparing these accounts the 2018 spend was still being finalised.

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.

## Notes to the Core Financial Statements

One of the Member Authorities, City of Wakefield MDC, acts as servicing authority for YPO and as such, WMDC officers are the Organisation's statutory officers. YPO has commercial support agreements with Wakefield MDC covering certain accounting, treasury, human resource, legal services and vehicle maintenance arrangements.

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

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

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

	<b>Transactions Value (Ex VAT) for the year £</b>	<b>Outstanding Balance as at 31st Dec 2018 £</b>
YPO Procurement Holdings	0	0
YPO Supplies Ltd	2,191,478	439,595

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

	<b>2018 £</b>
Capital	500,000
Interest	8,096
	<b>508,096</b>

On the 31st December 2018 a review has been carried out on the recoverability of the loan issued. Taking into consideration the financial performance and financial position of YPO Procurement Holdings and its subsidiaries, and the expected growth over the next 5 years, it is expected that the full amount owing will be fully recovered by the end of the loan term.

### **18. AUDIT COSTS**

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

<b>Audit Costs</b>	<b>2017 £000</b>	<b>2018 £000</b>
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	23	23

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

The 22nd March 2019 Management Committee Meeting will approve the pre audit statement of Accounts and agree a profit distribution in respect of the 2018 trading year of £7.85m 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 24th May 2019 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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	<p style="text-align: center;"><b>YPO</b></p> <p style="text-align: center;"><b>AUDIT &amp; SCRUTINY SUB-COMMITTEE</b></p> <p style="text-align: center;"><b>TO BE HELD ON</b></p> <p style="text-align: center;"><b>15<sup>TH</sup> FEBRUARY 2019</b></p>
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**TITLE: ANNUAL INTERNAL AUDIT REPORT JANUARY TO DECEMBER 2018**

**REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK**

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**1. PURPOSE OF REPORT**

- 1.1. The purpose of this report is to provide this Committee and senior management with Internal Audit's opinion on the effectiveness and efficiency of risk management, governance and control arrangements operating within the Yorkshire Purchasing Organisation (YPO).
- 1.2. This opinion is based upon the audit work completed for the reporting period January to December 2018.

**2. BACKGROUND INFORMATION**

- 2.1 The Terms of Reference for the Audit and Scrutiny Sub-Committee include a requirement to 'provide the Management Committee with a reasonable assurance of the efficient and effective operations of the overall internal control environment within YPO, through a systematic appraisal of its framework of internal controls, processes and data quality'.
- 2.2 Internal Audit support the Audit and Scrutiny Sub-Committee in meeting this requirement. Currently, the internal audit provision is provided by Wakefield Council's Internal Audit and Risk Service and as such must conform to the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS).
- 2.3 The PSIAS requires the chief audit executive (i.e. the Service Manager for Internal Audit and Risk) to:
- Develop a risk-based audit plan that takes into account the requirement to produce an annual internal audit opinion;
  - Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. This opinion must conclude on the adequacy and effectiveness of the organisation's framework of governance, risk management and control; and,
  - Ensure that the annual report incorporates:
    - The opinion;

- A summary of the work that supports the opinion; and,
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

2.4 The ‘Three-year Internal Audit Plan for 2018 to 2020’ was approved by the Management Committee at the meeting held on the 23<sup>rd</sup> March 2018. Input had previously been received from the Audit and Scrutiny Committee (16<sup>th</sup> February 2018 meeting) and the Section 151 Officer (Chief Finance Officer for Wakefield Council).

2.5 Section 3 of this report sets out the annual audit opinion and Section 4 details the audit work that has been completed to reach that opinion. Section 5 of the report details the progress being made against our Quality Assurance and Improvement Programme.

### 3. Annual Audit Opinion

3.1 From the work undertaken by Internal Audit during 2018, key controls were found to be in place to manage associated risks to the required level. No significant errors, losses or omissions have been identified through the systems reviewed. Where opportunities for improvements have been identified, we have received a commitment from senior management to address the issues raised.

3.2 Although an opinion of ‘partially implemented’ has been provided for the follow-up General Data Protection Regulations review it should be noted that the initial assessment provided an opinion of ‘mostly effective’. The weaknesses identified are not material enough to have a significant impact on the overall opinion on the adequacy of YPO’s governance, risk management and control arrangements. On this basis a satisfactory overall opinion is provided for 2018, based on the audit work detailed within this report.

3.3 The audit work undertaken to support this opinion has been conducted in accordance with the mandatory requirements of the Public Sector Internal Audit Standards.

### 4. Basis of the Annual Internal Audit Opinion

4.1 The annual audit opinion on the adequacy and effectiveness of the control environment for 2018 is based on the findings and assurance provided by the scheduled reviews undertaken throughout the year.

4.2 Table 1 provides a summary of the audits completed during 2018 and the individual opinion levels provided. The rest of this report details the process that has been followed to determine the priorities for the proposed draft audit plan.

**Table 1 – Summary of Internal Audit Work Completed in 2018**

Audit Title	Audit Opinion Level
<i>Section 151 Assurance Work, based on key financial systems</i>	
Budgetary Control	Fully Effective
Main Accounting System	Mostly Effective
<i>Governance and Risk Based Audits, linked to the delivery of YPO objectives and management of strategic risks</i>	
Counter-Fraud and Bribery Arrangements	Mostly Effective
General Data Protection Regulations	Mostly Effective
ICT Change Control	Mostly Effective
Warehouse Management and Stock Control	Mostly Effective

Audit Title	Audit Opinion Level
Workforce Skills Development	Mostly Effective
YPO Trading Company Governance Arrangements	Mostly Effective
<i>Follow-up Audit Work, this provides assurance on the implementation of previous audit recommendations (typically where an opinion of partially effective or ineffective has been provided)</i>	
General Data Protection Regulations Follow-up	Partially Implemented

4.3 Table 2 below, provides a summary of the opinion levels that were used for the audits completed in 2018.

**Table 2 – Current Internal Audit Opinion Levels**

Opinion	Definition
Fully Effective	The key controls in place and working are fully effective as a means of managing the potential impact of the risks reviewed, and maximises the likelihood of achieving associated key business objectives.
Mostly Effective	Most key controls were found to be in place and working as a means of managing the potential impact of the risks reviewed. However, some improvement is required in order to maximise the likelihood of achieving associated key business objectives.
Partially Effective	Some key controls were found to be in place and working as a means of managing the potential impact of the risks reviewed. However, significant improvement is required in order to maximise the likelihood of achieving associated key business objectives.
Ineffective	Evidence was found of a significant lack of operation of key controls, as a means of managing the potential impact of the risks reviewed to the extent that there is limited or no assurance that associated key business objectives will be achieved.

Key Financial Systems Assurance

4.4 In line with the Three-Year Internal Audit Plan we complete a review of all key financial systems over a three year period. As part of this cycle a review was completed of the budgetary control arrangements and the main accounting system.

4.5 The scope of the budgetary control audit was to review the arrangements in place for setting the budget and the monitoring arrangements. Overall, a sound system of control was in place and no audit recommendations were made, this resulted in an opinion of ‘fully effective’.

4.6 The scope of the main accounting system review was to gain assurance on the adequacy of the following areas:

- Bank reconciliation process;
- Governance arrangements (Contract and Financial Procedure Rules);
- Journals; and,
- Suspense Account.

4.7 There were satisfactory controls in place for these areas with one medium priority recommendation for an authorised signatory list to be maintained to support authorisations outside of the Navision accounting system. A further two low priority recommendations were made resulting in an opinion of ‘mostly effective’.

Governance and Risk Based Audits Assurance

4.8 There were six audits completed in 2018 that fell into this category of audit work and each had an opinion of ‘mostly effective’. Table 3 provides a summary of the scope and key findings from this work.

**Table 3 – Summary of the scope and key findings**

Audit Title	Scope of Audit	Key Recommendations
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Audit Title	Scope of Audit	Key Recommendations
Counter-Fraud and Bribery Arrangements	The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> <li>• Acting on recommendations from previous audit investigations; and,</li> <li>• The robustness of counter-fraud and bribery investigations.</li> </ul>	There were 3 high priority audit recommendations relating to reviewing the existing Employee Code of Conduct and Whistleblowing Arrangements, as well as raising the profile at Board and team meetings.
General Data Protection Regulations	The objective of the audit was to seek assurance on the adequacy of progress being made to comply with GDPR.	There were four high priority audit recommendations to: agree the timescales for implementing actions on the GDPR Action Plan; to focus on the high priority actions; training of employees and to review the arrangements with Calderdale Council over the Data Protection Officer role.
ICT Change Control	We reviewed the CRM ICT system and sought assurance on the effectiveness of controls around: <ul style="list-style-type: none"> <li>• Back-up arrangements;</li> <li>• Access controls;</li> <li>• Software testing; and,</li> <li>• User acceptance testing and training.</li> </ul>	It was recommended that the network passwords should be strengthened and the number of system administrator accounts reviewed to ensure they are appropriate. The implementation of these recommendations will strengthen controls to mitigate the risk of hacking, fraud and error.
Warehouse Management and Stock Control	The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> <li>• Restricting access to stock;</li> <li>• Stock valuation; and,</li> <li>• Accounting for stock.</li> </ul>	Three high priority audit recommendations were made, relating to: <ul style="list-style-type: none"> <li>• Ensuring that WE orders are raised for any internal orders;</li> <li>• FLT drivers must have a picking note before goods are provided at the warehouse;</li> <li>• Access to the warehouse should be restricted at all times (i.e. doors must be closed and not propped open).</li> </ul>
Workforce Skills Development	The objective of the audit was to gain assurance on the arrangements for developing YPO employees and performance management arrangements.	The main area for improvement was to minimise the number of disparate sources that record training.
YPO Trading Company Arrangements	The objectives of the audit were to seek assurance on the effectiveness of: <ul style="list-style-type: none"> <li>• Governance arrangements;</li> <li>• Mitigating the risk of conflicts of interest; and,</li> <li>• Controls to protect the YPO brand.</li> </ul>	There were no high priority recommendations. Three medium priority recommendations relating to the updating of the risk register.

Follow-up Audits

4.9 One follow-up audit was completed in 2018, this related to the implementation of the high priority audit recommendations for the GDPR review. Based upon testing that was completed in December 2018 the recommendation that ‘any actions within the GDPR action plan should be dealt with promptly and an agreed timescale set’ has been mostly implemented.

- 4.10 There was one recommendation, to review the adequacy of arrangements with Calderdale Council in respect of the Data Protection Officer, which had not been progressed. The remaining high priority audit recommendations were progressing and management was aware of reasons for delays. As an example some staff have not had GDPR training as they were on long-term leave.

### Other Audit Work

- 4.11 Internal Audit has adopted a consultancy style role in respect of work undertaken on the LINK programme in 2018.
- 4.12 There have been two main strands to audit's work. Firstly, in acting as a critical friend to challenge any aspects of the programme as it was felt necessary. This work most notably focussed on risks associated with the programme, the barriers that could prevent successful delivery of the programme, and the adequacy of actions being taken to address any such barriers to then allow the programme to fully meet its aims and objectives. The second aim has been to consider development of the programme linked to Internal Audit's ongoing assurance role.
- 4.13 Work in 2018 has included regular meetings with the Programme Manager with responsibility for the LINK programme, evaluation of documentation as necessary and reports being made to the Director of YPO where appropriate to do so.

## **5. Quality Assurance and Improvement Programme and Conformance with PSIAS**

### Internal Audit Performance

- 5.1 The Audit and Scrutiny Sub-Committee's Terms of Reference include the remit to 'consider internal audit performance'. This section of the report summarises the performance information for Internal Audit.
- 5.2 Fundamental to the performance of Internal Audit is the assessment that Internal Audit performs in accordance with the PSIAS. The standards require that an external assessment is conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation.
- 5.3 Our last external assessment was completed in 2016 by the Head of Audit for Calderdale Council. The review concluded that our Service conforms to the requirements of the PSIAS (the highest rating). Annual internal assessments were completed in 2017 and 2018, which provided the same conclusion. A new assessment will be completed in March 2019.

### Proficiency and Due Professional Care

- 5.4 The PSIAS require that all internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. As part of this process auditors must enhance their knowledge, skills and other competencies through continuing professional development.
- 5.5 It can be confirmed that all members of the audit team are professionally qualified (to at least AAT Standard) and have a good mix of skills and experience. In addition the Service has access to a professionally qualified risk officer and dedicated team of corporate fraud officers.
- 5.6 The appraisal process includes a review of continuing professional development being completed by all audit staff. This is supplemented by any individual requirements for professional bodies that the auditor is a member of.

Quality

- 5.7 All audit work and reports are subject to a review process to maintain a good standard of work. In addition, as part of our Quality Assurance and Improvement Programme we are reviewing our quality processes and Technical Manual to ensure they remain fit for purpose.
- 5.8 A customer satisfaction questionnaire (CSQ) is submitted following the issue of the final report. The questionnaires ask for the client's opinion (the agreed key contact) on a range of issues with an assessment ranging from 1 (poor) to 4 (very good). Table 4 provides a summary of the questionnaires received for the audit work carried out in 2018. It is pleasing to note the overall good scores received from managers at YPO.

**Table 4 – Summary of the returned CSQ's**

Score	Input to Scope	Professionalism	Effectiveness of Communication	Timeliness of audit testing	Timeliness of Report	Usefulness of recommendations	Added value of audit	Overall opinion
Very Good	4	5	6	4	6	4	4	5
Good	2	1	0	2	0	2	2	1
Fair	0	0	0	0	0	0	0	0
Poor	0	0	0	0	0	0	0	0

- 5.9 In order to support our objective of continual improvement we would encourage the completion of all CSQ's issued to help us identify potential areas for improvement.

Quality Assurance and Improvement Action Plan (QAIP)

- 5.10 Table 5 provides a summary of the latest QAIP, this includes the findings from the last external review in 2016. Although the review was aimed at the delivery of the internal audit service at Wakefield Council it is useful to reflect on any implications for YPO.
- 5.11 As previously stated a new internal review of conformance with the PSIAS will be completed in March 2019. The Service Manager for Internal Audit and Risk will notify this Committee of any significant amendments and will fully report the outcome in 2020. In the meantime the views of senior managers and Members of the Audit Committee would be welcome on the progress of addressing issues raised in Table 5.

**Table 5 – Summary of the Quality Assurance and Improvement Programme**

Ref	Recommendation	Our Response	Action Date	Comments
<b>Purpose, Authority and Responsibility (Standard 1000)</b>				
1	Internal Audit reports should be reported in the name of the designated Head of Audit.	Agreed, reports to the Audit Committee will be reported in the name of the Head of Audit.	March 2017	Progress reports and the Annual Report to YPO are in the name of the Head of Audit
<b>Direct Interaction with the Board (Standard 1111)</b>				
2	To issue progress reports for each of the Audit Committee meetings.	Agreed.	May 2018	No issues for YPO.
<b>Proficiency and Due Professional Care (Standard 1200)</b>				
3	Job descriptions should include reference to PSIAS.	Agreed.	March 2019	Ongoing, all JD's will be fully reviewed.
<b>Quality Assurance and Improvement Programme (Standard 1300)</b>				
4	To review performance reporting arrangements to	Agreed that feedback would be sought from	December 2018	To seek views of YPO on the adequacy of

Ref	Recommendation	Our Response	Action Date	Comments
	the Audit Committee.	Members of the Audit Committee.		performance reporting arrangements.
5	Reminders should be issued to chase unreturned CSQ's.	Agreed.	March 2017	As above.
<b>Managing the Internal Audit Activity (Standard 2000)</b>				
6	The Internal Audit Charter and Audit Manual should be refreshed.	Agreed.	September 2018	New IA Charter in place and Audit Manual has been refreshed, due to be communicated in February 2019.
<b>Planning (Standard 2010)</b>				
7	Consideration should be given to widening Member engagement during the planning process.	To be discussed with the Audit Committee.	March 2018	To seek the views of YPO.
8	Formalise the risk assessment methodology.	Agreed.	March 2019	Risk assurance maps are being developed to inform the planning process.
<b>Nature of Work (Standard 2100)</b>				
9	The scope of audits to consider future risks and opportunities.	Agreed.	July 2017	Internal Audit is part of a number of benchmarking groups to share good practice and identify emerging risks.
<b>Engagement Planning (Standard 2200)</b>				
10	Scoping documents should be fully completed for all reviews or fields removed from the standard template.	Agreed.	March 2017	A further review is being completed to capture input from the: <ul style="list-style-type: none"> <li>• Risk Manager;</li> <li>• Counter-Fraud Officer; and,</li> <li>• ICT Auditor.</li> </ul>
<b>Communicating Results (Standard 2400)</b>				
11	The standard report format should include reference that the engagement has been conducted in conformance to the PSIAS.	To be discussed with our Internal Audit Working Paper Database provider.	December 2018	Reviewing current reporting arrangements and future supply of our audit database.
<b>Monitoring Progress (Standard 2500)</b>				
12	To automate the process for triggering follow-ups.	Agreed that this will be discussed with our provider.	September 2018	As above, subject to a wider review. However, good compensating controls in place to capture when follow-up reviews are completed.

## 6. STRATEGIC IMPLICATIONS

- 6.1 Section 2 of this report details how the audit plan has been developed, in particular linking with the 3 Year Strategic Plan and the risk registers maintained by YPO.

## 7. FINANCIAL IMPLICATIONS

- 7.1 The annual cost for the provision of Internal Audit for YPO is £45,000 per year.
- 7.2 The audit plan also takes into account the need to provide the Section 151 Officer (Chief Finance Officer for Wakefield Council) with independent assurance of the effectiveness and efficiency of controls for the main financial systems.

## **8. LEGAL IMPLICATIONS**

- 8.1 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.
- 8.2 The Audit and Scrutiny Sub-Committee has delegated authority to provide the Management Committee with a 'reasonable assurance of the efficiency and effective operation of the overall internal control environment within YPO'. One of the sources of this assurance is through the work of Internal Audit.

## **9. EQUALITY IMPLICATIONS**

- 9.1 Equality issues are taken into account when considering the Organisation's key strategic risks. Therefore, this will be reflected in the scheduled audits completed each calendar year.

## **10. RISK IMPLICATIONS**

- 10.1 In line with the Public Sector Internal Audit Standards there is a requirement to set a risk-based audit plan. As detailed in Section 2 of this report one of the sources of information is YPO's risk register (for strategic and operational risks). In addition, input has been sought from senior management to help identify new and emerging areas of risk. Therefore, the scheduled audits have clear links to strategic risks at YPO.
- 10.2 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.

## **11. RECOMMENDATION**

- 11.1 The Audit and Scrutiny Sub-Committee is asked to:
- Consider and comment on the Annual Assurance Opinion prior to it being forwarded to the Management Committee;
  - Consider the comments detailed in the Quality Assurance and Improvement Programme and advise the Service Manager for Internal Audit and Risk of any suggestions for improvement.

### **Contact Officer:**

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

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**TITLE: PROGRESS ON THE 2018 INTERNAL AUDIT PLAN**

**REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK**

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## **1 PURPOSE OF REPORT**

- 1.1 This report is produced by the Service Manager for 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 2 November 2018.

## **2 BACKGROUND INFORMATION**

- 2.1 The report, attached as Appendix A, records details of audit work undertaken and reports issued, between 1st January and 31<sup>st</sup> December 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:**

Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)  
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# **Internal Audit Progress Report As At 31 December 2018**

**REPORT OF:** Jason Brook Service Manager for Internal Audit & Risk (Wakefield Council)  
Email address: jason.brook@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 2<sup>nd</sup> November 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. Six Internal Audit reports have been issued since the last meeting of the Audit & Scrutiny Sub-Committee in November 2018, as shown below:

Details of Audit Opinion, key messages and actions
<p><b>Audit of Anti-Fraud and Bribery Arrangements (Issued 10/12/18)</b></p> <p><b>Audit Opinion: Mostly Effective</b></p> <p>The audit opinion of <b>Mostly Effective</b> reflects that within most areas, controls were found to be in place to mitigate the risk of fraud and bribery occurring.</p> <p>Since the frauds of 2016 and 2017, management are clearly aware of the fraud risks and have implemented controls to mitigate the likelihood of recurrence as well as aiming to disseminate key messages relating to fraud risks across the Organisation. Ongoing vigilance together with a proactive approach to maintaining awareness levels and keeping the fraud and bribery message 'alive' are seen as essential.</p> <p>Three high priority recommendations for improvement were identified, these are summarised below:</p> <ul style="list-style-type: none"> <li>• Updating the Employee Code of Conduct - ensuring that all staff read and confirm their understanding of this and that they will abide by the Code. The Code then needs to be re-reviewed, as a minimum every 3 years.</li> <li>• Board and Team Meetings should routinely focus on fraud and bribery and regular use should be made of Fraud and Bribery Assessments.</li> <li>• Senior Management need to be proactive in forming a view on how likely it is that suspected fraud or bribery attempts will be reported and addressing any related issues.</li> </ul> <p><b>Actions taken by YPO:</b> Action plan was returned by 24/1/19 as requested with all actions agreed and completion dates confirmed.</p>
<p><b>Audit of Warehouse Management and Stock Control System (Issued 29/1/19)</b></p> <p><b>Audit Opinion: Mostly Effective</b></p> <p>The audit opinion of <b>Mostly Effective</b> reflects that within most areas, controls were found to be in place to mitigate the risks identified. The main concerns identified during the audit were that some stock record discrepancies were identified which may be attributable to stock being taken by staff for marketing events, without any paperwork being submitted to support the stock issue. There were also occasions identified where unauthorised personnel have gained access to the building however no stock losses were suffered</p>

as a result. Recommendations have been raised and agreed to address these weaknesses.

**Actions taken by YPO:** To return Action Plan detailing agreed dates for action and responsible officers by 1/3/19.

## Details of Audit Opinion, key messages and actions

### GDPR Follow Up (Issued 11/1/19)

#### Audit Opinion: Partially Implemented

A follow up audit took place to assess the implementation of recommendations raised in the Adherence to Legislation GDPR audit report issued (5/7/18). The follow up audit focussed on high priority recommendations only. The opinion of **Partially Implemented** indicates that while some action has been undertaken to implement the agreed recommendations from the original audit report there are some actions still required to be taken. Principally, these are to ensure that all staff have received training on GDPR and that the arrangement with the Data Protection Officer (DPO) has been reviewed prior to the renewal date of March 2019, to ensure that it remains fit for purpose and demonstrates value for money.

**Actions to be taken by YPO:** To return Action Plan detailing agreed dates for action and responsible officers by 8/3/19.

### Main Financial Systems: Budgetary Control (Issued 21/12/18)

#### Audit Opinion: Fully Effective

A core element of our annual audit plan is the coverage of YPO's main financial systems. As part of this, a review of the Budgetary Control arrangements was undertaken. An opinion of **Fully Effective** was given on this area, which recognises that key controls are operating effectively within the service with no key areas for improvement being identified.

Based on the above opinion, management need only continue to manage risks as at present, in order to maintain the fully effective assessment and minimise the likelihood of them materialising.

**Actions to be taken by YPO:** No further action.

### Main Financial Systems: Main Accounting System (Issued 14/1/19)

#### Audit Opinion: Mostly Effective

Our work on Main Accounting System covered the following elements:

- FPRs and CPRs
- Suspense account
- Journals
- Bank reconciliation

The audit opinion of **Mostly Effective** demonstrates that most expected key controls were found to be in place and operating effectively. In this respect the only points of note arising from the audit were in respect of revisions to Standing Orders for Contracts and Financial Procedure Rules (SOFC) and the roll out of training to Finance staff. It is understood that the Standing Orders for Contracts and Financial Procedure Rules (SOFC) has now been reviewed. However, these have yet to be reported to the YPO Board, which is due to happen in January 2019. Training will then be provided to the relevant staff to coincide with the new ERP going live.

**Actions to be taken by YPO:** To return Action Plan detailing agreed dates for action and responsible officers by 14/3/19.

### Details of Audit Opinion, key messages and actions

#### Audit of Risk Management (Issued 28/1/19)

##### Audit Opinion: Mostly Effective

The audit opinion of **Mostly Effective** demonstrates that most expected key controls were found to be in place and operating effectively. There were several areas where improvements would be beneficial in managing risks, of which the most significant detailed below:

- The risk appetite has not been fully explored and determined for each area of risk.
- The Risk Management Policy does not include a requirement to rate the adequacy of identified controls.
- The risk owner role appears to have been overlooked from the RM Policy document. This role is a key part of the risk management process and requires inclusion within the policy.
- Risk management training has not been provided to relevant staff.

All recommendations in the report have been discussed and agreed.

**Actions to be taken by YPO:** To return Action Plan detailing agreed dates for action and responsible officers by 23/3/19.

4. At the date of writing this report, the following Internal Audit work is ongoing:
  - 4.1 Consultancy, advice and support work 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 December 2018 is summarised below:
  - 5.1 A three year Audit Plan was agreed at the February meeting of the Audit & Scrutiny Sub-Committee covering 2018 – 2020. This is the first year of the three year plan and all planned audit work for 2018 was completed by 31 December 2018, with some reports being finalised in early January 2019.
  - 5.2 Four client surveys have been returned since the last report, all of which met the quality standards required by Internal Audit. Three were returned with opinions of 'Very Good' (GDPR Follow Up, Review of Risk Management and Review of Warehouse Management) and one with 'Good' (Budgetary Control).
  - 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 March 2019 will be to focus on reviewing the audit plan for 2019/20 and reprioritising coverage as applicable which will be determined following discussions with YPO's Deputy Managing Director at the end of January 2019.
  - 6.1 Consultancy, advice and support work to the Link programme will continue as requested.

- 6.2 Follow up work will be undertaken on any audits where an opinion of Partially Effective or Ineffective is given.

**OUTSTANDING REPLIES TO AUDIT REPORTS**

7. There are no outstanding replies to audit reports.



**YPO**  
**AUDIT & SCRUTINY SUB-COMMITTEE**  
**TO BE HELD ON**  
**15<sup>TH</sup> FEBRUARY 2019**

**TITLE: EXTERNAL AUDIT PLAN**

**REPORT OF: FINANCIAL CONTROLLER**

---

**1. PURPOSE OF REPORT**

1.1 To present to Members the External Audit Plan for the year ending 31 December 2018.

**2. BACKGROUND INFORMATION**

2.1 Attached at Appendix 1 is the external audit plan, prepared by KPMG, for the 2018 financial year.

2.2 The plan sets out the audit approach to be undertaken by our external auditors and the impact of key financial statement risk areas.

2.3 The plan also details the audit deliverables and timeline, along with confirming the audit fees which are a reduction from previous years.

**3 STRATEGIC IMPLICATIONS**

3.1 There are no strategic implications for this report.

**4 FINANCIAL IMPLICATIONS**

4.1 The financial implications are as specified above.

**5 LEGAL IMPLICATIONS**

5.1 It is not a mandatory requirement of YPO to have an external audit as per the Accounts and Audit Regulations 2015. However, it has been agreed by our Management Committee that we will prepare, each year, a statement of accounts in accordance with the C.I.P.F.A Code of Practice which will be subject to a non-statutory external audit.

**6 EQUALITY IMPLICATIONS**

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

## **7 RISK IMPLICATIONS**

7.1 The validity and accuracy of the statement of accounts are at risk if the audit plan is not adhered to and an unqualified opinion not received.

## **8 RECOMMENDATION**

8.1 That members note and comment on the audit plan.

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

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### **CONTACT OFFICER: MATTHEW HIRST, FINANCIAL CONTROLLER**

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

## **APPENDIX:**

*Appendix 1 – External Audit plan for the year ending 31 December 2018*



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# Yorkshire Purchasing Organisation

Report to the Audit and Scrutiny Sub-Committee

Audit plan and strategy for the year ending 31 December 2018

January 2019



# Contents

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# Introduction

## To the Audit and Scrutiny Sub-Committee of Yorkshire Purchasing Organisation

The purpose of this document is to brief the Board on our proposed approach to the non – statutory audit of Yorkshire Purchasing Organisation (YPO).

It sets out our proposed approach to the audit of the financial statements of YPO for the year ending 31 December 2018.

In particular, this paper will describe our overall strategy and scoping, outline our approach to materiality and identifies the significant risks and areas of focus to be addressed by our audit.

We have also included details of the timeline of our audit, key members of our audit team and set out the framework for the agreement of audit fees.

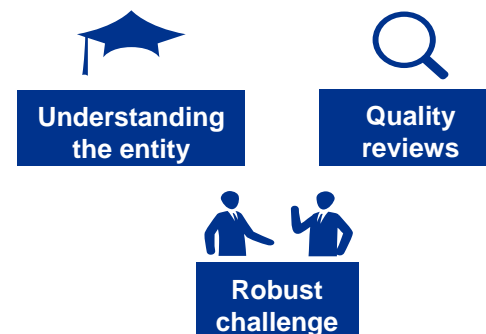
In addition, this document addresses the provisions of International Standards on Auditing (UK and Ireland) ('ISA') 260 – 'Communication of audit matters with those charged with governance'.

The document has been prepared in the context of an environment in which there is considerable focus on governance, and in particular, in relation to accounting and reporting (full and fair disclosure, appropriateness of accounting policies, etc.) and auditing (Audit and Scrutiny Sub-Committee responsibility for audit and auditor oversight; auditor's independence, etc.).

In this context we welcome input to our strategy (and its subsequent approval) by the Audit and Scrutiny Sub-Committee

## How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. Some of the ways in which we drive audit quality are demonstrated throughout our report and include:



## Restrictions on distribution

This report is intended solely for the information of those charged with governance of YPO and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Our audit

## The Purpose of our Non-Statutory Audit

The main purpose of our non-statutory audit, which is carried out in accordance with International Standards on Auditing (ISAs) issued by the Auditing Practices Board, is to issue a report to YPO which expresses our opinion on whether the financial statements:

- give a true and fair view of the state of the Yorkshire Purchasing Organisation's affairs as at 31 December 2018 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

## Significant risks

Risk	Risk change	
Pensions valuation – LGPS	● Stable	Page 7
Revenue recognition, including fraud risk	● Stable	Page 7
Risk of management override of controls	● Stable	Page 7

## Scope



**Materiality**  
**£2m**

Page 5



**Reporting threshold**  
**£100k**

Page 5



Materiality

# YPO Materiality

## Revenue

**£113.5m\***

(2017: £111m)

## Materiality

**£2m**

**1.8% of Revenue\***

(2017: £2m, 1.8% of Revenue)

\*Forecasted total revenue 2018



## Our materiality levels

Materiality represents the level at which we think misstatements will reasonably influence users of YPO's financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

## We will report:



Corrected audit misstatements



Uncorrected audit misstatements



Errors and omissions in disclosure (Corrected and uncorrected)



Risk-based

# What is the impact of the identified significant risks and other areas of audit focus?

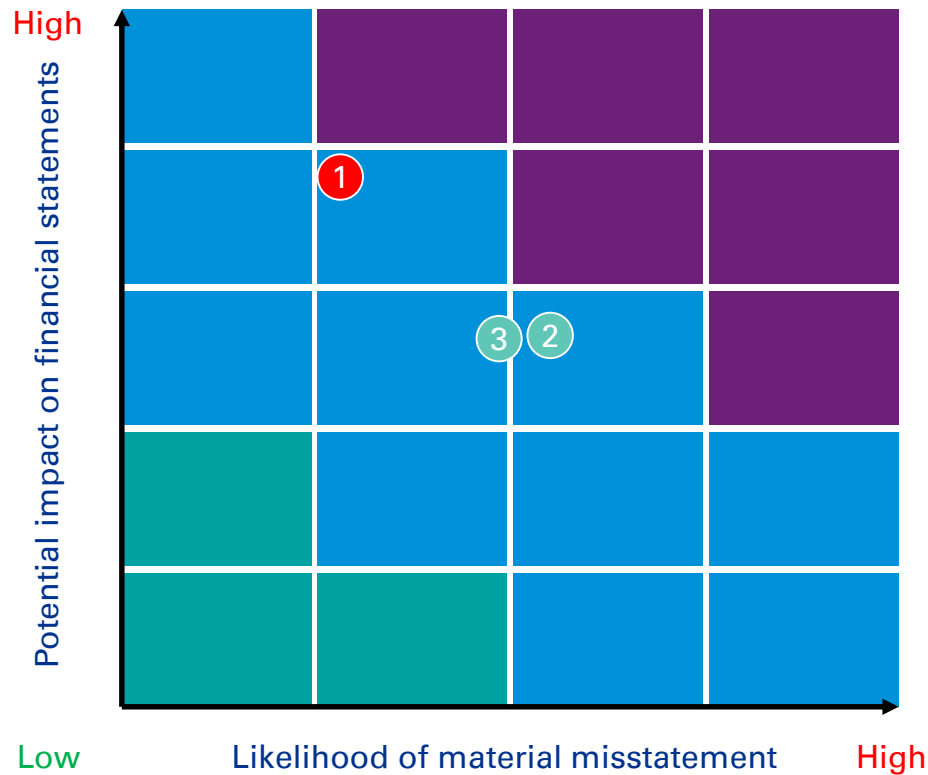
**Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which YPO operates.**

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

The risk map shows identified significant risks and other areas of audit focus.

Please see the following pages for the cross-referenced risks identified on this page.

## Our risk assessment



## Key

- New Significant audit risk
- Significant financial statement audit risks
- Significant audit risks that ISAs require us to raise in all cases
- Other areas of audit focus

# Significant risks and other areas of audit focus

## Relevant factors affecting our risk assessment

Significant risks	Size	Complexity	External scrutiny	Susceptibility to fraud/error
1 Pension valuation - LGPS	H	H	M	M
2 Fraudulent Revenue recognition*	H	L	H	L
3 Management override of controls*	N/A	M	L	L

**Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which YPO operates.**

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

### Audit risk

**H** Higher

**M** Moderate

**L** Lower

**\*Significant risk that professional standards require us to assess in all cases**

## 1 Pension valuation - LGPS

### Related business risks

### Economic

### Strategic

#### Significant audit risk

YPO participates in the West Yorkshire Local Government Pension Scheme. (LGPS). The valuation of the LGPS relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the YPO's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of YPO's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of YPO's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the YPS's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

#### Planned response

We will perform the following procedures:

- Evaluate the competency, objectivity of the Scheme actuaries to confirm their qualifications and the basis for their calculations;
- Review the input from YPO management into the calculation of the scheme valuation;
- Challenge the appropriateness of the key assumptions made by the Scheme actuaries with the use of an KPMG Actuary;
- Critically review the methodology applied in the valuation by the Scheme actuaries with the use of an KPMG Actuary; and
- Review the actuarial valuation and consider the disclosure implications in the financial statements.

# Significant risks



## 2 Revenue recognition\*

Fraud risk related to misstatement of revenues

Related business risks

Operational

### Significant audit risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

We have not identified any indications of fraudulent financial reporting but the nature of YPO's business means that we are unable to rebut this presumption.

### Planned response

We will consider the incentives and opportunities to misstate revenue and focus our testing in these areas.

We will carry out appropriate controls testing and substantive procedures to address the risk. This includes:

- Attendance at stocktakes
- Testing the automated control which updates the stock file
- Substantively reconcile the invoiced turnover to the Dawn stock control files.
- Carry out sales cut-off testing at the year end.
- Testing of the bad debt provision and aged debt disclosures
- Testing a sample of contract rebates to supporting evidence

**\*Significant risk that professional standards require us to assess in all cases**

# Significant risks



Scepticism



D&A



Specialists



Challenge

## 3 Management override of controls\*

Fraud risk related to unpredictable way management override of controls may occur

Related business risks

Operational

### Significant audit risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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

### Planned response

Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will test the operating effectiveness of controls over journal entries and post closing adjustments.

We will also assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

We will also carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside YPO's normal course of business, or are otherwise unusual.

**\*Significant risk that professional standards require us to assess in all cases**

# Two-way communication



No surprises



Dialogue

Meeting	Deliverable	Purpose	Timing
<b>Planning</b>			
<b>Kick-off meeting with management</b>	Audit plan	<ul style="list-style-type: none"> <li>– Communicate materiality and audit scoping assessments</li> <li>– Outline audit approach</li> <li>– Confirm plan with management</li> </ul>	January 2019
<b>During audit</b>			
<b>Status meetings with management</b>	Audit updates	<ul style="list-style-type: none"> <li>– Evaluate how both KPMG and YPO are progressing with the audit plan</li> <li>– Communicate audit misstatements and control deficiencies (if any) early, and make requests related to additional audit procedures (if necessary)</li> <li>– Discuss significant accounting and audit issues</li> </ul>	April 2019
<b>Closing meeting with management</b>	Draft Audit and Scrutiny Sub-Committee report and auditor's report	<ul style="list-style-type: none"> <li>– Discuss communications in draft committee report</li> <li>– Agree on timeline to complete any outstanding audit deliverables</li> <li>– Discuss KPMG's findings related to audit focus areas including key accounting judgements and disclosures</li> </ul>	April 2019
<b>Audit and Scrutiny Sub-Committee meeting</b>	Auditor's report	<ul style="list-style-type: none"> <li>– Discuss any changes to KPMG's audit plan and KPMG's findings related to audit focus areas including key accounting judgments</li> <li>– Communicate audit misstatements</li> <li>– Communicate significant control deficiencies</li> <li>– Auditor's report on YPO's financial statements</li> </ul>	April 2019

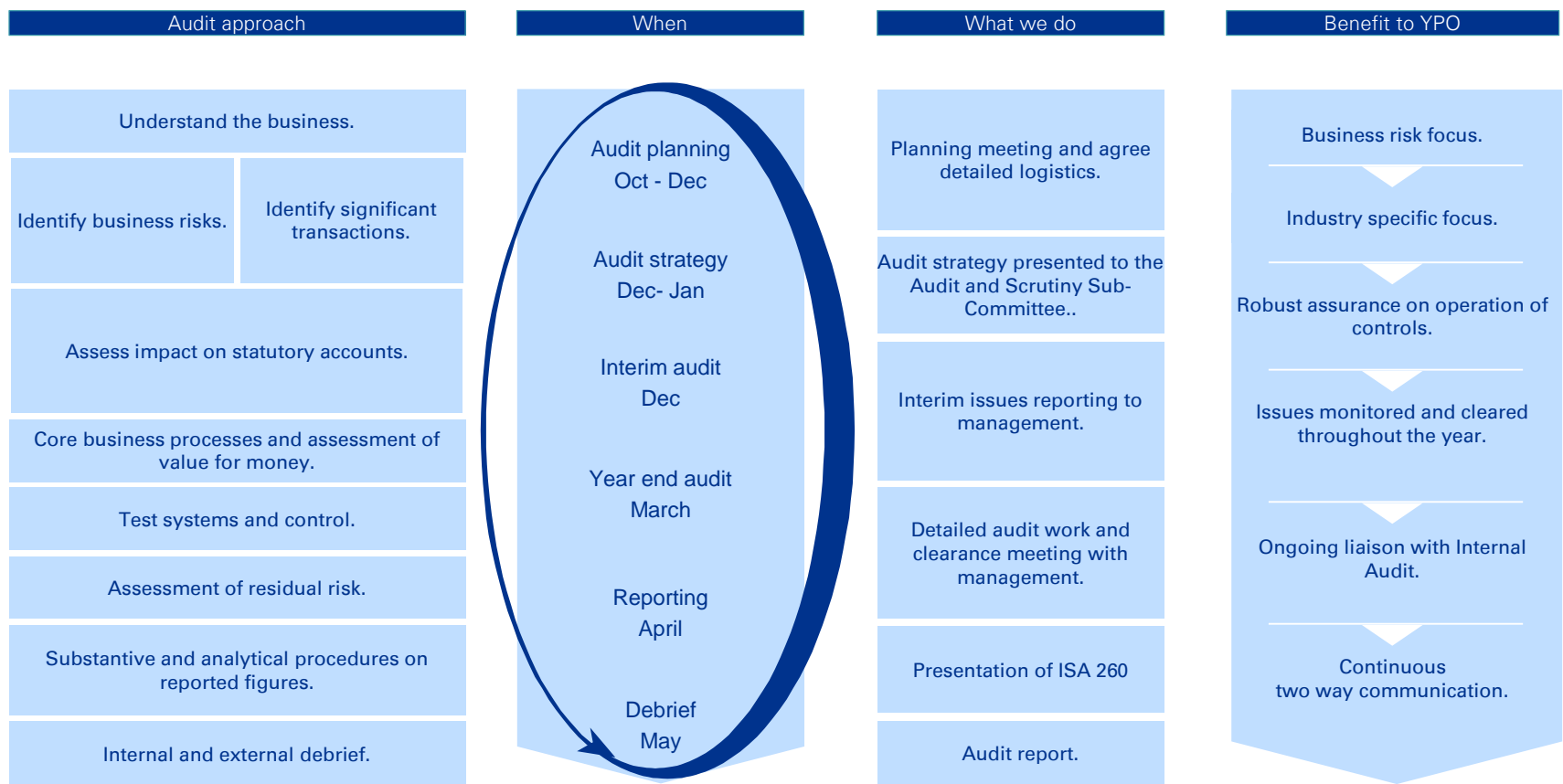
# Planned audit timetable



Timeliness

## Overview

Our approach to the audit is based on understanding and assessing YPO's structures and processes for decision-making, accountability, control and behaviours and weaknesses and identifying those risks that can affect the financial statements. We then carry out audit procedures to address any identified risks and weaknesses. We assess where the greatest risk of misstatement exists and how effective internal controls are at mitigating these risks.



Agenda Page 110

Not for publication



# Audit team structure



Name and contact details	Responsibility	Role
<p><b>Rashpal Khangura</b></p>  <p>0113 231 3396 Rashpal.Khangura@kpmg.co.uk</p>	<p>Audit Director</p>	<p>Rash has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Audit and Scrutiny Sub-Committee and YPO's Executive Team.</p>
<p><b>Matthew Moore</b></p>  <p>0113 231 3663 Matthew.Moore@kpmg.co.uk</p>	<p>Audit Manager</p>	<p>Matt is responsible for delivery of all our audit work. Matt will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.</p>
<p><b>Michael Hammerton</b></p>  <p>07392 863344 Michael.Hammerton@kpmg.co.uk</p>	<p>Assistant Manager</p>	<p>Mike will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.</p>

# Fees

## Audit fee

The table below summarises our proposed fees for the year ending 31 December 2018.

Entity	2018 (£)
Yorkshire Purchasing Organisation Joint Committee	23,792

## Billing arrangements

Fees will be billed in accordance with a billing schedule to be agreed with management.

## Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- YPO's audit evidence files are completed to an appropriate standard;
- Draft statutory accounts are presented to us for audit subject to audit adjustments;
- Supporting schedules to figures in the accounts are supplied;
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

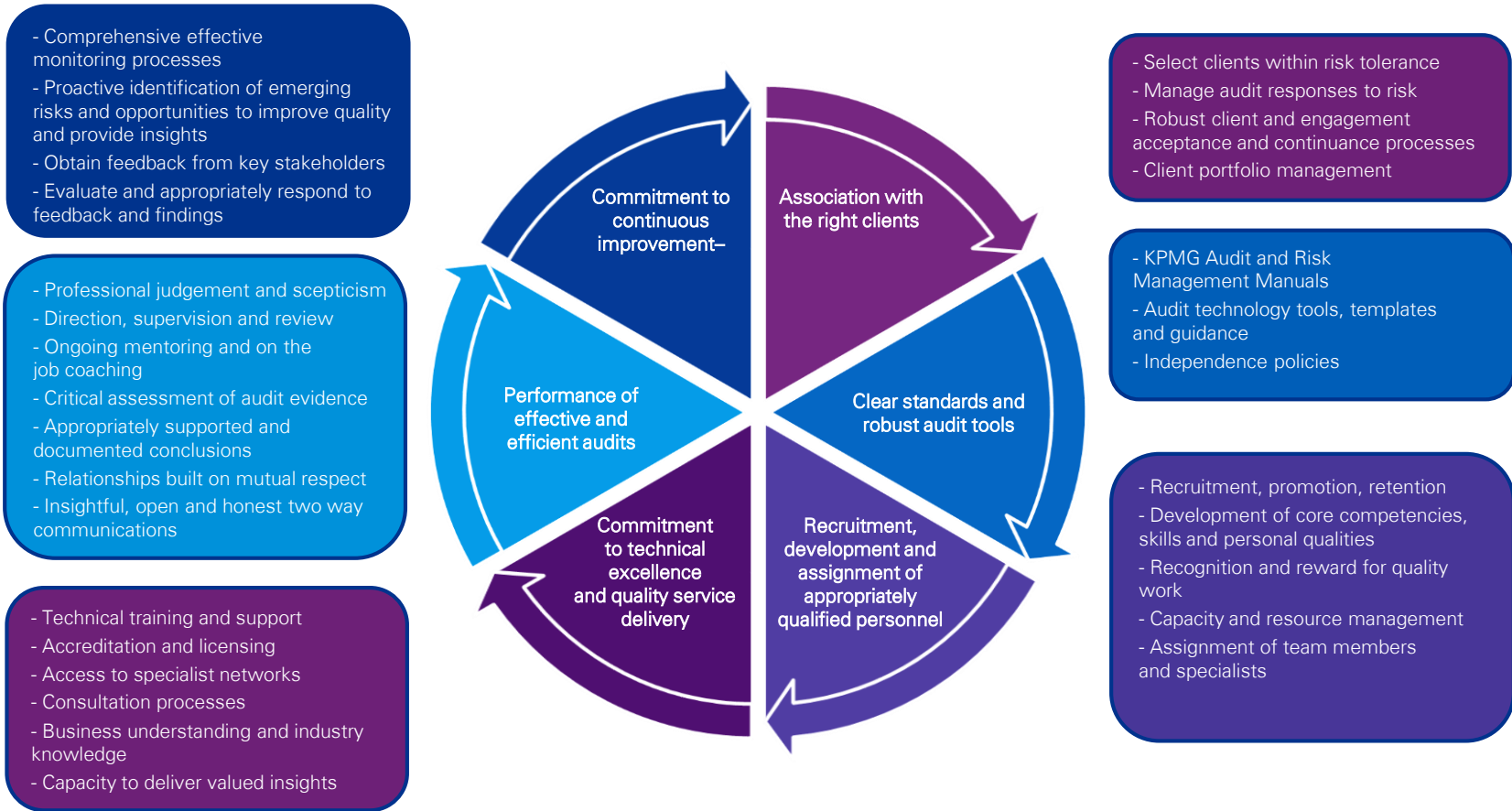
# Appendices



# KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.



# Mandatory communications

<p><b>Management’s responsibilities (and, where appropriate, those charged with governance)</b></p>	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
<p><b>Auditor’s responsibilities</b></p>	<p>Forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
<p><b>Auditor’s responsibilities – Fraud</b></p>	<p>Design and implement appropriate responses to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to respond appropriately to fraud or suspected fraud identified during the audit.</p>
<p><b>Auditor’s responsibilities – Other information</b></p>	<p>Obtain, read and consider whether there is a material inconsistency between the other information and 1) financial statements and 2) auditor’s knowledge obtained in the audit.</p> <p>Respond appropriately when material inconsistencies appear to exist, or when other information appears to be materiality misstated.</p> <p>Report on other information in the auditor’s report.</p>
<p><b>Roles</b></p>	<p>The identity and role of the engagement partner, or key audit partner where relevant.</p>

# Mandatory communications



---

<b>Planned scope and timing</b>	An overview of the planned scope and timing of the audit, including details about significant/ financial statement level risks (key audit matters) identified by us. We communicate levels of materiality, significant risks, fraud risks including the risk of management override of controls and the audit response to identified risks.
<b>Communications</b>	The form, timing and expected general content of the communications related to the audit.
<b>Independence</b>	Relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement partner and audit staff. We must also establish with you a timetable for reporting any insignificant breaches of the IESBA Code of Ethics and UK Ethical Standards (significant breaches are required to be reported as soon as possible) (IESBA Code of Ethics)

---

# Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Scrutiny Sub-Committee members

## Assessment of our objectivity and independence as auditor of Yorkshire Purchasing Organisation (the Organisation)

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

## 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 partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

## Independence and objectivity considerations relating to the provision of non-audit services

### *Exiting of prohibited non-audit Services*

We have carried out a review of all services performed in respect of the Organisation in the last three years. We confirm that we either completed or terminated any services that would not be permissible under the FRC's Revised Ethical Standard prior to 31 December 2018.

# Confirmation of Independence

## Summary of fees

We have considered the fees charged by us to the Organisation and its affiliates for professional services provided by us for the reporting period.

Total fees charged so far by us for the period ending 31 March 2018 can be analysed as follows:

	2018 (to date)	2017
	£'000	£'000
Audit Services	23,792	23,135
Other Assurance Services	-	-
Other non-audit services	-	-
<b>Total non-audit services</b>	-	-
<b>Total Fees</b>	<b>23,792</b>	<b>23,135</b>

No additional services were provided in year and as such we see no conflict with our audit work performed.

## Reliance on the work of external experts

We confirm that we may use work from external experts engaged by KPMG and will receive a confirmation from them regarding their independence before they assist in any work.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the director and audit staff is not impaired.

This report is intended solely for the information of the Audit and Scrutiny Sub-Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP



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**YPO**  
**AUDIT & SCRUTINY SUB-COMMITTEE**  
**TO BE HELD ON**  
**15<sup>TH</sup> FEBRUARY 2019**

**TITLE: GIFTS AND HOSPITALITY REGISTER**

**REPORT OF: DEPUTY MANAGING DIRECTOR**

---

## **1. BACKGROUND INFORMATION**

- 1.1 As part of its Anti-Fraud & Bribery Framework, YPO maintains a Gifts & Hospitality Policy that sets out the protocols that employees must follow to accept or decline all offers of gifts and hospitality and to declare such offers. The policy also applies to employees who offer gifts and hospitality on behalf of YPO during the course of their work. The Policy was fully revised and agreed by the Board in October 2018.
- 1.2 The Policy requires employees to complete a declaration of offers made and received in a Gifts & Hospitality Register maintained by Business Services. The register is reviewed annually and items valued over £25 are reported to the Board and the Audit & Scrutiny Sub-Committee.
- 1.3 In 2018 there were nine declarations, of which seven were made to YPO employees and two were made by YPO employees: all nine were accepted and approved by a senior manager. Five of the offers were in excess of £25 and are listed in Appendix 1. For commercial purposes the names of the employees and organisations involved have not been included in Appendix 1 but are listed in the completed register.

## **2. STRATEGIC IMPLICATIONS**

- 2.1 We recognise that our stakeholders need to have confidence in our employees, in particular those with influence and those responsible for our strategic and business planning and delivery, decision making and risk management, to act with integrity and to maintain YPO's good reputation.

## **3. FINANCIAL/RESOURCE IMPLICATIONS**

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

## **4. LEGAL IMPLICATIONS**

- 4.1 Completion of declarations recorded in and Gifts & Hospitality Register in accordance with the Policy enables YPO to demonstrate compliance with relevant legislation including Section 177 of the Local Government Act 1972 and the Bribery Act 2010.

**5. RISK IMPLICATIONS**

- 5.1 The Gifts & Hospitality Policy and annual review of the Gifts & Hospitality Register helps to mitigate the risk that an offer or acceptance may be unlawful or inappropriate and may influence, or may be perceived to influence, a person or decision, leaving YPO open to challenge and potential reputational damage.

**6. CONSULTATION**

- 6.1 The Head of Finance has been consulted on this report.

**7. OPTIONS APPRAISAL**

- 7.1 None: YPO must have a Gifts & Hospitality Policy and a Register of Declarations.

**8. RECOMMENDATIONS**

- 8.1 That the Board and the Audit & Scrutiny Sub-Committee review the extract from the Gifts & Hospitality Register (Appendix 1) showing declarations valued over £25.

**9. REASONS FOR RECOMMENDATIONS**

- 9.1 The Gifts & Hospitality Policy and Register are key elements of our Anti-Fraud & Bribery Framework and help to manage the risks arising to YPO and its employees from accepting, declining or making offers of gifts and hospitality.

**SERVICE DIRECTOR: PAUL SMITH, DEPUTY MANAGING DIRECTOR**

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**APPENDICES**

*Appendix 1: Extract from the Register of Gifts & Hospitality 2018*

## Appendix 1

## Register of Gifts &amp; Hospitality 2018 Extract: Items valued £25 and over

Service Area	Offering Organisation	Details of gift / hospitality	Date	Est'd Value	Approved by
Contracts	<i>Sales Representative</i>	Gift box with Prosecco, Chocolate and Nuts	12/12/2018	£30	Line Manager
IT	<i>IT Supplier</i>	Evening meal purchased by supplier (for two staff)	13/10/2018	£50	Board Member
Customer Services	YPO	Drinks at awards	12/07/2018	£88	Board Member
Customer Services	Suppliers and Customers	Drinks at event	12/07/2018	£80	Board Member
Board	YPO	Hotel room and train travel for world of procurement event	10/09/2018	£140	Board Member

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**YPO**  
**AUDIT & SCRUTINY SUB-COMMITTEE**  
**TO BE HELD ON**  
**15<sup>TH</sup> FEBRUARY 2019**

**TITLE: FINANCIAL PROCEDURE RULES & STANDING ORDERS FOR CONTRACTS**

**REPORT OF: HEAD OF FINANCE**

---

**1. BACKGROUND INFORMATION**

- 1.1 The Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements and make a clear, transparent statement that aims to promote the highest standards in financial and contract management and activity. They should be reviewed and updated on a regular basis to ensure compliance with current regulations and best practice and to consult founder members, as set out in the Management Agreement.
- 1.2 A full review and rewrite of the Financial Procedure Rules was completed in late 2017 and approved by the Board in January 2018 and the Audit & Scrutiny Sub-Committee in February 2018. They have now been reviewed again by the Head of Finance and no changes are proposed. It is anticipated that they will be reviewed again after the implementation of the LINK Project in 2019.
- 1.3 The Standing Orders for Contracts were reviewed in December 2018 by the Head of Finance and the Contracts Manager and no changes are proposed. As they were not presented to the Board or Audit & Scrutiny Sub-Committee in 2018 they are attached at Appendix 1. It is anticipated that they will be reviewed again in mid-2019 to take into account any implications arising from Brexit.

**2. STRATEGIC IMPLICATIONS**

- 2.1 Strong contract and financial management procedures and controls are essential to the delivery of YPO's three year strategy and objectives, and to the good relationship between YPO and its Management Committee.

**3. FINANCIAL/RESOURCE IMPLICATIONS**

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

**4. LEGAL IMPLICATIONS**

- 4.1 There are no additional legal implications arising from this report.

**5. RISK IMPLICATIONS**

- 5.1 There is a risk that officers will not comply with the Financial Procedure Rules and Standing Orders for Contracts: this risk will be mitigated by ensuring that mandatory training takes place for all relevant staff.

**6. CONSULTATION**

- 6.1 The Finance and Contracts Management Team and the Deputy Managing Director have been consulted on this report.

**7. OPTIONS APPRAISAL**

- 7.1 None: the Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements and regular update ensures they reflect the most up to date regulation.

**8. RECOMMENDATIONS**

- 8.1 The Board note that there are no changes to the Financial Procedure Rules in 2018 but that they will be reviewed again after implementation of the LINK project in 2019.
- 8.2 The Board note that there are no changes to Standing Orders for Contracts at this time (Appendix 1) but that they will be reviewed again in mid-2019 following Brexit.

**9. REASONS FOR RECOMMENDATIONS**

- 9.1 Financial Procedure Rules and Standing Orders for Contracts are key elements of YPO's governance arrangements.

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**APPENDICES:**

*Appendix 1: Standing Orders for Contracts*

# **Standing Orders for Contracts and Financial Procedure Rules**

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Document Control Page

<b>Document Type</b>	Standing Orders
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# YORKSHIRE PURCHASING ORGANISATION

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### Section 2 Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules agreed by the YPO Board in January 2018.

## 1 DEFINITIONS

- 1.1 **“Organisation”** means the consortium of local authorities known as the Yorkshire Purchasing Organisation.
- 1.2 **“Managing Director”** means the current Managing Director of the Yorkshire Purchasing Organisation or an officer designated by him/her.
- 1.3 **“Monitoring Officer ”** means an officer designated by Lead Authority responsible to the Management Committee of the Organisation who will secure legal and administrative services for the Organisation (other than the administrative services performed by the Managing Director or other officer designated by him/her)
- 1.4 **“Chief Financial Officer”** means the current Director of Finance of the Lead Authority responsible to the Management Committee of the Organisation for providing financial advice to the Organisation (other than the financial services performed by the Managing Director or other officers designated by him/her). In fulfilling this role the Chief Financial Officer will be able to rely on the Managing Director of the Organisation to keep him/her informed on all aspects of his/her role relating to the Organisation under Section 151 of the Local Government Act 1972, including compliance with the rules forming the Financial Procedure Rules and Standing Orders relating to Contracts of the Organisation.
- 1.5 **“Management Committee”** means the elected members of the Organisation constituting its Management Committee and any of its Sub Committees.
- 1.6 **“Lead Authority”** is the member authority chosen by the Management Committee to provide support services to the Organisation.
- 1.7 **“Chairperson”** means the current Chairperson of the Management Committee.
- 1.8 **“Framework”** means an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price, quality and where appropriate the quantity envisaged.
- 1.9 **“Contract”** means an agreement made by the Organisation with another party creating a legal relationship enforceable by law.
- 1.10 **“Goods”** includes all supplies and materials that the Organisation purchases or obtains.
- 1.11 **“Services”** includes all services, which the Organisation purchases or obtains including but not limited to advice, consultancy, agency staff, third party logistics etc.
- 1.12 **“Works”** includes the construction of new buildings and works, restoring and common repairs.
- 1.13 **“Whole Life Costs”** means the whole costs of the provision of the works, goods and/or services **from inception to disposal** including any annual maintenance costs or annual fees (i.e. software licences)

1.14 "OJEU" means the Official Journal of the European Union.

## 2. INTRODUCTION

2.1 YPO's Standing Orders for Contracts aim to promote the highest standards in procurement activity ensuring probity, integrity, accountability and impartiality in making a clear, understandable, transparent and fair selection of suppliers by the Organisation, and form part of the governance arrangements of the Organisation

2.2 YPO's Standing Orders for Contracts also promote the delivery of value for money and the required levels of quality and performance in all contracts that are let. The Organisation is committed to the overall principles that:

- a) All purchases will be based on the most economically advantageous tender. Unless agreed by the Managing Director.
- b) Goods and services will be acquired by fair, objective and transparent competition.

2.3 YPO's Standing Orders for Contracts also aim to deliver competitive procedures and the avoidance of practices which may restrict, prevent or distort competition.

2.4 Procurement will be carried out in compliance with the legal and ethical requirements referred to in these Standing Orders for Contracts, and taking into account the Organisation's commitment to continuous improvement, quality and environmental issues.

2.5 These Standing Orders for Contracts apply to all contracts for Goods, Services and Works.

2.6 All values referred to in these Standing Orders for Contracts are exclusive of VAT.

2.7 Any dispute regarding interpretation of these Standing Orders for Contracts shall be referred to the Managing Director or his/her nominated officer.

2.8 The Managing Director or his/her nominated officer shall undertake a formal review of these Standing Orders for Contracts on an annual basis.

## 3. Responsibility for Observance

3.1 The Management Committee is responsible for regulating and controlling the contractual arrangements of the Organisation.

3.2 The Managing Director shall operate in accordance with these Standing Orders for Contracts, the Organisation's Financial Procedure Rules and the Managing Director's Scheme of Delegation and the law of the land with respect to all matters relating to contracts.

## 4. Conduct of Members and Employees

4.1 In dealing with matters referred to in these Standing Orders for Contracts employees shall abide by the provisions of the Organisation's Code of Conduct Policy (particularly Sections: (7) Outside Commitments; (8) Personal Interests; (10) Separation of Roles During Tendering and (11) Corruption, Fraud, Bribery

and Theft) and the rules contained in these Standing Orders for Contracts and the Organisation's Financial Procedure Rules.

- 4.2 So far as possible, the election to the Management Committee of anyone with a significant involvement in any way with any firm likely to be employed by the Organisation, or the employment of any officer with a similar involvement, should be avoided.
- 4.3 Members and employees of the Organisation shall not sell any goods or services to the Organisation.
- 4.4 No contractor, supplier or service provider in which a member or officer has a pecuniary interest may be chosen or appointed, other than by following the procedures laid down in these Standing Orders for Contracts, the Organisation's Code of Conduct Policy and without having disclosed his/her interest by completing a Declaration of Interest Form in accordance with statutory requirements and the Organisations Register of Employee Interests Policy.

## **5. Propriety**

- 5.1 The Organisation shall conduct all its operations with the utmost propriety. With this in mind the Managing Director shall have direct access to the Secretary, the Chief Financial Officer or the Chairman of the Organisation, in matters touching on the propriety of purchasing arrangements. The Managing Director shall provide information and advice as necessary, but where circumstances clearly require a completely impartial approach, initial decisions shall be taken by the Secretary, the Chief Financial Officer or the Chairman, as appropriate. All such matters must be referred to the Management Committee either for decision or, where action has already been taken, for confirmation.

## **6. Compliance**

- 6.1 Contracts entered into on behalf of the Organisation shall be made in accordance with these Standing Orders for Contracts, all relevant EU and UK legislation requirements and timescales, including case law.
- 6.2 Where an appropriate standard or code of practice issued by the European Union is current at the date of the tender, every contract subject to these Standing Orders for Contracts shall require that all goods and materials, used or supplied, and all workmanship provided shall be in accordance with that standard.
- 6.3 The Contracts Team and all other officers with budget responsibilities within the Yorkshire Purchasing Organisation are responsible for ensuring that processes adopted are compliant with these Standing Orders for Contracts.
- 6.4 The Procurement route should take into account instances where Goods, Services and Works can be obtained via appropriate, existing, approved and enabled arrangements.

These include:

- 6.4.1 The use of a Member Authority's in-house services such as payroll, legal, vehicle maintenance etc.

- 6.4.2 Nationally negotiated contracts such as those arranged by any Public Sector Body or Public Buying Organisations such as Eastern Shires Purchasing Organisation and the Crown Commercial Service.

## **7. Exceptions**

- 7.1 Exceptions from any of the provisions of these Standing Orders for Contracts shall only be made by decision of the Management Committee or in compliance with the terms of the Managing Director's Scheme of Delegation and a written record signed by the Managing Director in the form of an Exception Report will be kept centrally in an electronic file held by the Contracts Team

- 7.2 Subject to statutory requirements tenders need not be invited in accordance with these Standing Orders for Contracts in the following cases:

- a) Goods and Services which are obtainable from one contractor only and for which there is clear recorded evidence that no satisfactory alternative is available.
- b) The execution of Works of a specialised nature where there is clear recorded evidence that they may only be carried out by one contractor.
- c) Goods of a nature entrusted to a particular public utility, local authority (or similar) or other statutory undertaker.
- d) The purchase of Goods and Services from a central or local government purchasing organisation where YPO is satisfied that the procurement has been undertaken in accordance with legislation and any specific Call Off procedure is followed.
- e) The purchase of Goods and Services where prices of the goods are wholly controlled by trade organisations or government order and no reasonably satisfactory alternative is available.
- f) The purchase of Goods and Services in response to emergency.

## **8. Freedom of Information**

- 8.1 The Freedom of Information Act 2000 (FOIA) & Environmental Information Regulations 2004 provide the right of public access to information held by public authorities such as YPO.

- 8.2 All requests received by the Organisation under FOIA in respect of tenders and contracts should be channelled through YPO's Risk, Audit and Assurance Officer immediately upon receipt to enable the Organisation to comply with its Access to Information Policy.

- 8.3 The FOIA includes potential exemptions on the basis of commercially confidential information. However, tenderers will be made aware of the implications of the Act at the tender stage.

## **9. Equality and Diversity**

- 9.1 Contractors, suppliers and service providers will not unlawfully discriminate within the meaning and scope of any law, enactment, order or regulation relating to discrimination (whether in race, gender, religion, disability, sexual orientation, age or otherwise) in employment.
- 9.2 Contractors, suppliers and service provider's will be required to take all reasonable steps to secure the observance of YPO's framework agreement / Contract by all servants, employees or agents of their organisations or those of their suppliers and sub-contractors employed in the execution of the Framework Agreement / Contract.

## **10. Terms and Conditions**

- 10.1 Contracts and Framework Agreements will use YPO's standard terms and conditions. Variations from the standard format must be approved by YPO's Contracting Manager and if necessary legal advice sought. Terms and conditions will be included with tender documents and issued to suppliers as part of the invitation to tender.
- 10.2 Tenderers are expected to accept YPO's Terms and Conditions held within the Framework Agreement or Contract without qualification. Acceptance of qualified terms and conditions will only be made at the Contracting Manager's discretion and written assessment should be made of its implications and held on a central file within the Contracts Team. YPO is not obliged to accept any variation to terms and conditions and in general, any such relaxation will only be granted if it is considered reasonable under the circumstances, provides a commercial advantage to YPO, the level of risk is assessed as acceptable and it does not distort competition between the tenderers
- 10.3 The tender documents should give tenderers the opportunity to raise any queries in relation to the terms and conditions during the "Clarification Question" stage of the process to allow for all queries to be addressed and a response (if required) can be circulated to all tenderers. Any legal queries raised during the tender process should be referred to the Contracting Manager.
- 10.4 The tender documents should also state that any legal queries raised after the deadline for submission of tenders or any included in a tenderers bid submission will not be considered.
- 10.5 Contracts for the execution of Works or the purchase of Goods or Services where urgency is too great to permit the making of a contract in writing will be confirmed in writing at the earliest opportunity.

## **11. Tendering Process**

- 11.1 Yorkshire Purchasing Organisation's preferred route is to utilise an electronic tendering system (ETS) for all tendering activity. Any exception to this process must be agreed on a case by case basis with the Contracts Team with full details of the reason for change retained in writing on file.
- 11.2 The ETS provider is sourced, administered and managed by the Contracts Team
- 11.3 User training is provided by the Contracts Team

- 11.4 Cost may be evaluated through an e-auction where appropriate.
- 11.5 When commencing the procurement of Goods, Services or Works for contracts within each band the procurer must complete and return to the Contracts Team the New Business Detail Requirement Form which will form the basis of the initial ETS set up for the procurement.
- 11.6 Gateway sign off stages for contracts within each band will be dependent on the monetary, complexity and risk value of the contract and will be confirmed by the Contracts Team at the time of tendering.
- 11.7 Any exception to the procurement processes detailed in this document will be at the Managing Director's discretion as detailed above at point 7. A written record documenting the reasons for the exception authorised and signed by the Managing Director, will be retained on an electronic central file held by the Contracts Team.

## 12 **Sample Process**

- 12.1 Where samples are requested they must be provided in accordance with the instructions in the tender document by the set deadline.
- 12.2 They should be sent to the front reception of YPO site 41 FAO The Contracts Team.
- 12.3 Samples are then required to be held in the sample room until the tender deadline has passed when they will then be passed to the relevant buyer in order to be evaluated.
- 12.4 Samples from successful suppliers shall be stored in the warehouse for the life of the contract.
- 12.5 Samples from unsuccessful suppliers are to be returned to the supplier wherever possible
- 12.6 If the unsuccessful supplier is unable to arrange collection, or does not require the samples to be returned. A list of these products should be submitted to the Asset Management Team who will log this on their "Unsalable Items" Spread Sheet. Items will be used internally, donated to charity or disposed of.
- 12.7 Samples from unsuccessful suppliers should be returned or passed to the Asset Management Team within one (1) month of the award of the contract

## 13 **Tender Information Obligation**

- 13.1 As part of the Local Government Transparency Code the Organisation has an obligation to publish information on a monthly/quarterly basis in relation to invitations to quote and invitation to tender for all contracts to provide goods and/or services that exceed £5,000. However, Central Government later issued guidance stating that where contracting authorities already had a limit e.g. £25,000 in their internal governance procedures this would be sufficient for the purposes of the Code.
- 13.2 The information to be published is reference number; title; description of

goods/services; start, end and review dates; title of agreement; supplier name and details; sum to be paid over the length of the contract; the process used; whether or not the supplier is a small/medium enterprise and/or a voluntary or community sector organisation and the department responsible for the procurement.

**14. Contracts / Frameworks under £25,000**

14.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value up to £25,000

14.2 The procurer may use any reasonable means to source supplier options but the tendering procedure and outcome must be managed and a written record must be retained. If requested to do so a copy must be provided to the Contracts Team on conclusion.

**15. Contracts / Frameworks between £25,000 and £75,000**

15.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value between £25,000 and £75,000

15.2 There must be a minimum of three written quotes from selected suppliers unless agreed otherwise by the Contracts Team in exceptional circumstances.

15.3 The procedure must be carried out electronically via the ETS with a written record of the specification, the quotations, the evaluation process and notification of award and rejection. This written record must be retained.

**16. Contracts / Frameworks between £75,000 and EU Thresholds for Goods, Services & Works**

16.1 This includes any procurement activity (internal or trading spend) involving an estimated aggregate Whole Life Costs value between £75,000 and the EU Threshold for Goods, Services and Works.

16.2 The procurement activity must be advertised on Contracts Finder and awarded by the Contracts Team unless agreed otherwise by the Contracting Manager.

16.3 The entire process will be overseen and signed off by the Contracts Team.

16.4 The procedure must be carried out electronically via the ETS with a written record of the specification, the quotations, the evaluation process and notification of award and rejection. This written record must be retained.

**17. Contracts / Frameworks above EU Thresholds for Goods, Services & Works**

17.1 Procurement activity with an estimated aggregated Whole Life Costs value above EU Thresholds for Goods, Services and Works will be conducted by the Contracts Team or Procurement Services Department. To ensure compliance with EU rules and regulations the Contracts Team will oversee all tendering processes, ensuring a segregation of duties and a consistent approach.

- 17.2 All tenders must be advertised on Contracts Finder and advertised and Awarded in the OJEU.
- 17.3 Procurements must be processed via the ETS unless otherwise agreed by the Contracts Team. In the case of tenders for Goods or Services, the relevant officers should consider whether the contract will be of benefit to other public sector bodies.
- 17.4 The selection and award criteria, sub-criteria and weightings to be used in the evaluation process must be clearly communicated to all tenderers in the OJEU entry, in the Invitation to tender and on the ETS. These criteria must be followed during the evaluation process. Under no circumstances may any of the criteria be changed or new criteria introduced from those published.
- 17.5 Before commencing any tendering exercise an assessment of risk pertaining to the specific tender exercise will be undertaken. This will allocate the required sign off levels / stages which must be adhered to.
- 17.6 All legally required time limits must be followed as minimum
- 17.7 Sustainability considerations must be included in the criteria for award in the OJEU notice and tender documentation when pertinent to the contract.
- 17.8 The Social Value Act/added value must be considered within the tender plan and documentation if found to be pertinent to the services contract/framework.
- 17.9 In every instance detailed records will be held (electronically) of all stages of the process.

**18. Receipt and Opening of Tenders**

- 18.1 The receipt and opening of tenders will be undertaken using the ETS unless otherwise agreed by the Contracts Team.
- 18.2 The Contracts Team are responsible for receipting and opening all tenders unless otherwise agreed by the Contracting Manager.
- 18.3 Late tenders may be considered at the discretion of the Contracting Manager, if the Contracting Manager is satisfied that there was reasonable cause for the delay and fair competition has not been compromised. A record of this decision will be held centrally by the Contracts Team.
- 18.4 Using the ETS the Contracts Team will confirm the submissions received are against the correct tender.

**19. Examination of Tenders**

- 19.1 Tenders submitted in competition shall not be considered if:
- a) The tender is in some way uncertain in its terms and it is unclear what the submission is offering,
  - b) There is evidence that the tender document has been altered without consent.

- 19.2 If a tender requires clarification on a technical or contractual matter all necessary communication must be properly recorded and remain confidential. Such clarification may only be undertaken when the process remains fair to all Tenderers and does not distort competition in any way.
- 19.3 During the period between the closing for the receipt of a tender and award, Tenderers may not seek to amend prices in any way, other than a genuine and obvious error. Such circumstances must be properly recorded on file and competition must not be distorted in any way. Evidence should always be provided that can be tracked back to the original quote.
- 19.4 If variations to specifications are to be examined and considered, tenderers must have been made aware in the invitation to tender document.

## **20. Acceptance of Tenders**

- 20.1 The designated Procurement Officer(s) shall evaluate the tenders and make a recommended contract award based on the most economically advantageous tender to the sign off panel.
- 20.2 In the case of 2 or more tenders being equal, environmental considerations (transport, packaging and the company's environmental standing and performance) may be used to determine the successful bid. If all aspects are still equal the Managing Director shall decide and record the decision.
- 20.3 The proposed award would then be signed off by the tender team and a Tender Recommendation Form and a Regulation 84 Report shall be completed
- 20.4 The relevant company credit checks and any other necessary checks will be carried out by an agreed member of the tender team prior to contract award and copies of any searches and documents retained.
- 20.5 Signed letters of proposed acceptance and rejection shall be sent to Tenderers in the format provided by the Contracts Team initiating a mandatory standstill period before final contract award.
- 20.6 In the event of a request for a de-brief by an unsuccessful tenderer during the standstill period, the debrief will be organised by a member of the Contracts Team in line with YPO's internal best practice. A full record must be kept on file. Meetings will always involve a minimum of two members of YPO's staff including a member of the Contracts Team. The Contracts Team will advise on how to debrief organisations for under threshold tenders.
- 20.7 If the debrief is not carried out to the satisfaction of the unsuccessful tenderer who then initiates a legal challenge, or if a legal challenge is received without debrief and during the standstill period, the Contracts Officer shall meet with the tender team and the Contracting Manager will be informed and legal advice will be sought.
- 20.8 The acceptance of tenders and related communication will be undertaken using YPO's preferred route of the e-tendering system.

## **21. Claims from Contractors, Suppliers and/or Service Providers**

21.1 Any claim from a contractor, supplier or service provider shall be referred to the Contracting Manager, Managing Director, Secretary and to the Chief Financial Officer for advice before any settlement is made.

## **22 Purchasing**

22.1 After the award of the Contract / Framework to the successful providers the Contract / Framework agreement must be signed and returned to YPO immediately (subject to point 10.1).

22.2 Upon receipt of the above the Managing Director or his/her nominated officer must sign the framework agreement on behalf of YPO in accordance with the levels set out in appendix 1.

22.3 Contained within the framework agreement is the Call off Order Form. Before any procurement of the Goods, Services or Works can commence the call off order form must be filled in and issued to the supplier. This activates the Call off Terms and Conditions

22.4 If included within the Invitation to Tender documents the Supply Chain Agreement must be signed and returned to YPO.

22.5 Any variations to the framework agreement including any specification amendments must be discussed with the Contracts Team to ensure that the variation is not a material change to the contract scope.

22.6 Once agreed between the parties the variation form must be completed by either side and signed off by both YPO and the successful supplier. A variation to the framework must be assessed for risk and verified by the Contracts Team before YPO enter into negotiation to vary the framework agreement/ contract.

22.7 The Management Information must be provided to YPO by all successful suppliers as part of the framework agreement.

22.8 Signatures are required on the Retrospective Payment Certificate to be returned to YPO.

22.9 Orders, despatched electronically or on official stationery, should state the quantity (where applicable), an adequate description, the price or the basis of the price, an official purchase order number, delivery date and place and all other relevant conditions.

22.10 Verbal orders shall be kept to a minimum and shall be confirmed with an official order marked appropriately as soon as practicable, but in a period of no longer than two (2) working days.

22.11 Orders shall be individually identified, sequentially numbered, initiated and issued by the Managing Director or a member of staff specifically authorised for that purpose.

22.12 The authorisation of an order will indicate the following:-

- a) That the Goods or Services are necessary for the discharge of the policies and responsibilities of the Organisation.

- b) That where the Goods or Services are for direct use by the Organisation there is a provision for the cost within the estimates or it is covered by special financial provision.
- c) Compliance with the Organisation's Financial Procedure Rules and Standing Orders for Contracts.

## 23 Further Competition

- 23.1 All further competitions should be carried out via the ETS with all Users contacting the Contracts Team prior to commencing any further competition.
- 23.2 The Contracts Team will advise as to the appropriate process.

## 24. Post Contract Award

- 24.1 Following Contract award the Buyer/Category Manager will be responsible for monitoring delivery of the Framework / Contract including any and all reviews to take place between YPO and the contractor, supplier or service provider. All reviews should be carried out on a regular basis, documented and a copy of the Review undertaken retained for YPO's records.
- 24.2 If any problems are experienced and the contractor, supplier or service provider are failing to comply with the Framework / Contract terms and conditions then the following steps should be taken with the assistance of the Contracts Team:-
  - (a) Written records must be kept of all correspondence between both parties, the Buyer/Category Manager shall liaise with the contractor, supplier or service provider to ascertain the root cause of the problem.
  - (b) The contractor, supplier or service provider should be invited to attend a performance review. At the performance review a list of actions should be agreed between the parties to monitor the future provision of the goods/services. A copy of the minutes of this meeting should be agreed by both parties and a date set for a follow up meeting.
  - (c) If contract performance has failed to improve then the Buyer/Category Manager should seek advice from the Contracts Team who will provide advice as to the best remedy and action to be taken.
- 24.3 **UNDER NO CIRCUMSTANCES** should a Framework Agreement / Contract be terminated without advice from the Contracts Team and the Contracting Manager.

## Section 2 Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules

agreed by the YPO Board in January 2018.

## APPENDIX 1

## YPO

These appendices set out the limits to be used in conjunction with the *Financial Procedure Rules and Standing Orders for Contracts*.

## Standing Orders for Contracts

*Section 21.2*

<b>Delegated officer</b>	<b>Maximum limit for signing off a contract</b>	<b>Maximum limit for signing off a framework agreement</b>
Assistant Buyer	up to £0.5 million	
Buyer / category manager	up to £1 million	
Contracting Manager/SMT member*	up to £2 million	up to £10 million
Managing Director*	greater than £2 million	greater than £10 million

\*The authorities listed in this table should not be delegated below the specified levels.

## Financial Procedure Rules

This section of the document has been replaced by separate Financial Procedure Rules agreed by the YPO Board in January 2018.



YPO

**AUDIT & SCRUTINY SUB-COMMITTEE**

**TO BE HELD ON**

**15<sup>TH</sup> FEBRUARY 2019**

**TITLE: INTERNAL AUDIT ACTIONS UPDATE**

**REPORT OF: DEPUTY MANAGING DIRECTOR**

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## **1. BACKGROUND INFORMATION**

- 1.1 The purpose of this report is to provide an update on the progress made on agreed audit actions resulting from audits completed by Wakefield Council Internal Audit.
- 1.2 YPO is subject to a statutory, ongoing internal audit of all relevant business risks, as part of the agreed Annual Audit Plan delivered by Wakefield Council Internal Audit. Internal Audit review the controls in place to manage YPO's risks and provide positive assurance where they find them to be working effectively. They also identify any areas for improvement and complete an action plan for agreement with YPO. Agreed actions are assigned to a named owner with a date for completion: they are then monitored on a regular basis and reported to the Board and the Audit Sub-Committee regularly.
- 1.3 Audit & Scrutiny Sub-Committee last received a report on outstanding audit actions in February 2018. At that time there were no outstanding audit actions to report. Since then, Internal Audit has completed three major audits and one audit follow up. These resulted in 34 recommendations for action, of which 24 had been completed by 31<sup>st</sup> December 2018. Of the remaining 10 new and in progress actions, all are due for completion between January and March 2019: as at the date of this report, none are overdue. Internal Audit is in the process of completing a number of audits that were ongoing at the end of December 2018 and it is likely that there will be some actions arising from these audits which will be reported in due course.
- 1.4 With the clear up of all outstanding audit actions at the end of 2017 this was an ideal time to move future action monitoring to a new process designed to capture and assign audit actions on SharePoint and generate automatic email reminders to action owners. This has worked well throughout 2018 and is now being extended to assign and monitor external audit actions in the same way.

## **2. STRATEGIC IMPLICATIONS**

- 2.1 There are no strategic implications arising from this report.

## **3. FINANCIAL/RESOURCE IMPLICATIONS**

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

#### **4. LEGAL IMPLICATIONS**

4.1 There are no legal implications arising from this report.

#### **5. RISK IMPLICATIONS**

5.1 Wakefield Council Internal Audit review the controls in place to manage the risks in YPO's systems and processes. It is essential that any actions they identify to improve controls are completed to reduce the likelihood and impact of those risks.

#### **6. CONSULTATION**

6.1 The Head of Finance has been consulted on this report.

#### **7. OPTIONS APPRAISAL**

7.1 None: we must implement agreed actions to ensure that the controls to manage risks remain in place and working effectively.

#### **8. RECOMMENDATIONS**

8.1 That the Audit & Scrutiny Sub-Committee note progress on internal audit actions and that at the time of this report there were no outstanding audit actions.

#### **9. REASONS FOR RECOMMENDATIONS**

9.1 The report provides assurance to the Audit & Scrutiny Sub-Committee that identified weaknesses in controls have been addressed.

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