

Your Ref.  
Our Ref

**Please Reply To** **Ellie Gerrard**  
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Date 29 October 2015

**Joanne Roney OBE**

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Typetalk calls welcome

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

Dear Member

**YPO AUDIT SUB-COMMITTEE – FRIDAY, 6 NOVEMBER 2015**

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit Sub-Committee which is to be held at **10:30 am on Friday, 6 November 2015 in the YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda attached.

**Please note that Financial Management Training will commence at 10.00am followed by the meeting.**

Yours sincerely



Joanne Roney OBE  
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 SUB-COMMITTEE -  
Friday, 6 November 2015**

**AGENDA**

1. Election of Chair.  
Nominations are requested for the position of Chair of the Audit Sub-Committee for the year 2015/16.
2. Chair's Introduction and Welcome.
3. Acceptance of Apologies for Absence.
4. To approve, as a correct record, the Minutes of the meeting held on 15 May 2015. (Pages 1 - 3)
5. Members' Declaration of Interest.
6. To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.
7. Internal Audit Plan Template 2016. (Pages 5 - 13)
8. Annual Audit Letter. (Pages 15 - 21)
9. Progress on 2015 Internal Audit Plan. (Pages 23 - 28)
10. Risk Management Process. (Pages 29 - 35)
11. Appointment of SIRO, Senior Information Risk Owner. (Pages 37 - 39)
12. Year End Closedown Timetable. (Pages 41 - 43)
13. External Audit Plan. (Pages 45 - 67)
14. Exclusion of the Public and Press  
In relation to reports containing exempt information to consider and, if approved, pass the following resolution: -  
  
"That the public and press be excluded from the meeting during consideration of agenda items 15 and 16 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"
15. Risk Register. (Pages 69 - 71)
16. Tender Complaint Review. (Pages 73 - 79)
17. Date and Time of Next Meeting.  
The next meeting of the YPO Audit Sub-Committee will be held on 26 February 2016 at 10.00am.



**YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE**

**Friday 15 May 2015**

**Present:**        The Chair: Councillor Les Shaw  
                  Councillor Trotter (North Yorkshire CC)  
                  **Please note this meeting was not quorate and therefore these  
                  minutes are for information purposes only.**

**39. CHAIR'S INTRODUCTION AND WELCOME**

The Chair, Councillor Shaw welcomed everyone to the meeting.

**40. APOLOGIES FOR ABSENCE**

Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Morris (Bolton MBC), Walker (Wigan MBC) and Barnard (Barnsley MBC)

**41. MINUTES – 13 MARCH 2015**

The minutes of the previous meeting held on 13<sup>th</sup> March 2015 were unable to be approved as today's meeting was not quorate.

**42. EXTERNAL AUDIT REPORT**

The Chair noted this meeting would be unable to sign off agenda item 7, Audited Statement of Accounts and therefore asked the meeting if they wished to hear from KPMG regarding this item and the contents of the report, to which it was agreed it would be worthwhile to hear background information.

Alastair Newell of KPMG provided verbal overview of the report tabled and noted that YPO had provided an excellent level of support during the Audit.

**It was noted** – (1) Report noted

(2) Report to be tabled at AGM in June

(3) Representative from KPMG to attend AGM to provide a brief overview of report and answer any queries.

**43. AUDITED STATEMENT OF ACCOUNTS**

As stated unable to achieve sign off of this report. Therefore report to be submitted to Management Committee in June and if agreed at this meeting, The Chair will provide sign off at this time. Noting that the statutory date to fail for provision of this information is end of September.

**It was noted** - That the Audited Statement of Accounts be tabled at the AGM in June.

**44. AUDIT SUB-COMMITTEE TERMS OF REFERENCE & 2015/16 WORK PROGRAMME**

A report of the Managing Director provided an overview of the work scheduled

for Audit Sub-Committee for the 2015/16 cycle. This report also proposed the Terms of Reference, Principal Agenda Items, 2015/16 meeting schedule and training plan.

It was highlighted that the Risk Management Process & Register and Internal Audit Action Update are not tabled as frequently in the 2015/16 cycle but these were regularly reviewed at YPO Board meetings.

**It was noted-** (1) That the report be noted and submitted to the Annual General Meeting in June.

(2) Revised Principal Agenda Items to be reviewed after 12 months.

(3) Skills matrix to be devised to ensure training offered is valuable and appropriate to members.

(4) Required attendance at critical meetings through the year to be reinforced at the AGM in June.

#### **45. GOVERNANCE REVIEW**

Consideration was given to a report of the Managing Director entitled Governance Review.

Members were asked for their opinion regarding a revised format for this review, a summary of the policies and protocols reviewed by YPO was detailed within the review and information supplied regarding the need for further action if required or no further action.

A discussion took place regarding whether provision for written resolution should be included in the Governance Paper which would allow non-quotate meetings such as today's to go ahead and any items requiring agreement could be made by absent members in writing at a later date.

**It was noted-** (1) The revised Governance Review containing summary table be agreed.

(2) YPO to ensure all policies and procedures are accessible should members require sight of the information.

(3) Contact details for Committee Services Manager to be easily obtainable in order to assist with any queries for information.

(4) SH to seek further advice regarding potential for written resolutions to be agreed.

#### **46. INTERNAL AUDIT PROGRESS**

Consideration was given to a report which detailed the Internal Audit's performance and work during the period March to April 2015 and to note the contents therein.

It was proposed that the frequency of the Internal Audit Progress Report usually produced by YPO and tabled at every Audit Sub-Committee meeting, be reviewed and only tabled annually as very often there were no changes to report. This proposal was agreed by Carl Tweed, Internal Audit Manager.

**It was noted** – Report noted

**47. DATE AND TIME OF NEXT MEETING**

**It was noted** – That the next meeting of the YPO Audit Sub-Committee will be held on Friday 6<sup>th</sup> November at 10.00am

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**YPO  
AUDIT SUB-COMMITTEE**

**TO BE HELD ON  
6 NOVEMBER 2015**

**TITLE: 2016 DRAFT INTERNAL AUDIT PLAN TEMPLATE**

**REPORT OF: THE s151 OFFICER**

**1 PURPOSE OF REPORT**

- 1.1 This report is produced by the s151 Officer to provide Members with information relating to the 2016 Draft Internal Audit Plan.

**2 BACKGROUND INFORMATION**

- 2.1 The Internal Audit function is provided to YPO by Wakefield Council as the Lead Authority, under the overall responsibility of the Assistant Chief Executive – Resources & Governance, being the statutory s151 Officer to YPO. The overall strategy for provision of the Internal Audit service is specified within the Three-Year Internal Audit Strategy Incorporating the Annual Internal Audit Plan, approved by Wakefield Council. It provides the basis for YPO annual planning. The YPO Annual Audit Plan details the individual audits to be undertaken within the overall strategy for the year ahead.
- 2.2 Each calendar year a risk based Annual Plan of audit work to be performed is prepared by the Service Manager Internal Audit & Risk, and submitted to the Assistant Chief Executive – Resources & Governance (Wakefield Council) and Managing Director of YPO for approval. It is then submitted to the YPO Board of Directors for ratification. The Annual Audit Plan is presented to the Audit Sub-Committee for comment and Management Committee for Member approval.
- 2.3 In formulating the plan, Internal Audit consults with YPO Board Members, Service Managers and other relevant officers, the s151 Officer, External Audit and YPO Members as deemed appropriate, to determine the extent, scope and risks associated with activities to be reviewed and to ensure proper audit coverage avoiding duplication of effort.
- 2.4 Identification and prioritisation of auditable areas is based on a number of factors, including financial values, significance of the area linked to achieving strategic objectives, knowledge of risk management arrangements, management wishes and time since the last Internal Audit review.

- 2.5 In accordance with the procedure outlined above, the YPO Audit Sub-Committee will have the opportunity to comment on the Annual Audit Plan at a later date, following its formulation. At this early stage, the Annual Audit Plan template for 2016 is attached as Appendix A for Member consideration and comment.

### **3 STRATEGIC IMPLICATIONS**

- 3.1 The Internal Audit work planning process includes involvement at a strategic level within YPO, including liaison with Members and senior management plus consideration of key strategic risks associated with achievement of the Organisation's key business objectives.

### **4 FINANANCIAL IMPLICATIONS**

- 4.1 The resource required to deliver the Plan and associated cost to YPO will be determined as part of the more detailed planning process and incorporated within future reports to Members.

### **5 LEGAL IMPLICATIONS**

- 5.1 The Accounts and Audit Regulations 2011 impose a duty on a local authority to ensure "that the financial management ..... is adequate and effective and that the [council] has a sound system of internal control which facilitates the effective exercise of [its] functions and which includes arrangements for the management of risk." The work undertaken by the Internal Audit team contributes to ensuring this duty is complied with.

### **6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

### **7. RISK IMPLICATIONS**

- 7.1 Internal Audit is a statutory function which 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 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 RECOMMENDATIONS**

- 8.1 That Members consider the attached Annual Audit Plan template for 2016, which identifies areas of potential audit activity, and:

- a) comment on the extent to which audit work is being planned with due regard to major risks, areas of significant financial effect and the need to cover the range of the service;
- b) suggest any specific areas to consider including within the Plan, based on Member assurance requirements.

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

**CONTACT OFFICERS: MARK ST ROMAINE, SERVICE MANAGER INTERNAL AUDIT & RISK (WAKEFIELD COUNCIL); CARL TWEED, AUDIT MANAGER (WAKEFIELD COUNCIL)**

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APPENDIX A

**DRAFT INTERNAL AUDIT PLAN TEMPLATE FOR 2016**

NOTE: This template identifies areas of potential auditable activity. Not all of these will appear in the Audit Plan approved by the Management Committee.

<b>Plan / Risk Area</b>	<b>Rationale For Undertaking Audit</b>	<b>Previous Audit</b>	<b>Comments</b>
<b>Main Financial Systems</b>			
<p>Main Financial Systems - annual review and testing.</p> <p><b>Linked to various finance-related strategic risks.</b></p> <p><b>Also linked to YPO operational risk register for Finance.</b></p>	<p>High volume and value of transactions.</p> <p>Assurance provided to s151 officer and External Auditor.</p>	<p>Annually</p>	<p>The systems subject to annual review and testing are:</p> <ul style="list-style-type: none"> <li>• Ordering and Creditors – split between: (i) Working Expenses including Hired Carriers, and (ii) Business Creditors</li> <li>• Main Accounting System</li> <li>• Payroll</li> <li>• Debtors – split between: (i) Business Income, and (ii) Non-Business Income</li> <li>• Budgetary Control</li> <li>• Asset Management</li> <li>• Stock control</li> </ul>
<b>Other Risk Based Audit Work</b>			
<p>New systems / initiatives being developed.</p> <p><b>Linked to YPO strategic risk:</b></p> <p><b>SR-0003 Programmes and projects are not aligned to YPO's strategic objectives.</b></p>	<p>To ensure projects are properly established, best practice is adhered to regarding procurement routines and project management, and best value is obtained.</p> <p>Internal Audit involvement</p>	<p>Annually</p>	<p>In addition to involvement in new systems and initiatives that are already ongoing, to confirm with YPO senior management the new systems and initiatives which are due to be developed in 2016 and beyond.</p> <p>Consultancy role, involving ongoing support to the Business Change Programme as necessary. The role may include such matters as:</p> <ul style="list-style-type: none"> <li>• Business case stage – Input to consideration of</li> </ul>

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
	<p>helps ensure that adequate controls are built into all new systems.</p>		<p>options. Are benefits, dis-benefits and risks adequately recorded? Is the costing methodology used consistent across the options? Does the costing of the options take everything into account? Are the costs calculated correctly? Are the objectives of the proposed project measurable?</p> <ul style="list-style-type: none"> <li>• Risk register – Input to compilation of the project risk register as a ‘critical friend’. Are all of the key risks included?</li> <li>• Project stage – Comment on the adequacy of the controls that are being built into the new system and whether these will be sufficient to mitigate key risks. Comment on the adequacy of the governance arrangements (for example, the approval process at the start of the project, arrangements for reporting on progress with regards to time being taken and cost, stakeholder involvement and delegation of decisions during the course of the project). May involve periodic attendance at Project Board meetings.</li> <li>• Post ‘Go Live’ – Review and comment upon the project closure report and the benefits realisation, including lessons learned.</li> </ul>
<p>Anti-fraud and bribery arrangements / testing.</p>	<p>Potential impact on YPO if fraud and / or bribery were to occur.</p>	<p>2015 (Anti-fraud and bribery)</p>	<p>Two potential elements:</p> <ul style="list-style-type: none"> <li>• Robustness of the overall arrangements for</li> </ul>

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
<p>Linked to YPO strategic risk:</p> <p><b>SR-0006 Financial crime, fraud, bribery and / or corruption.</b></p> <p>Also linked to various fraud-related risks on YPO operational risk registers.</p>		<p>arrangements)</p> <p>2013</p> <p>(Anti-fraud and bribery arrangements)</p>	<p>preventing fraud and bribery, and</p> <ul style="list-style-type: none"> <li>• Undertaking proactive testing on work areas which could be susceptible to fraud and / or bribery if controls have lapsed.</li> </ul>
<p>Performance Management</p> <p>Linked to various YPO strategic risks including:</p> <p><b>SR-0001 Lack of availability (or unacceptable cost) of adequate funds to fulfil the strategic plan.</b></p> <p><b>SR-0005 Under-achievement of sales forecast.</b></p> <p><b>SR-0012 Poor customer service.</b></p>	<p>Good performance management is a prerequisite for a successful organisation.</p>	<p>2013</p> <p>(Data Quality)</p>	<p>Undertake testing to confirm that controls exist to mitigate the risks associated with Performance Management and are working in practice.</p>
<p>Business Planning</p> <p>Linked to various YPO strategic risks including:</p> <p><b>SR-0001 Lack of availability (or unacceptable cost) of adequate funds to fulfil the strategic plan.</b></p> <p><b>SR-0003 Programmes and projects are not aligned to YPO's strategic objectives.</b></p>	<p>If YPO does not have a sound business planning process in place, its activities may not properly support the strategic objectives of the organisation.</p>	<p>2014</p> <p>(Business Planning)</p>	<p>Undertake testing to confirm that controls exist to mitigate the risks associated with Business Planning and are working in practice.</p>

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
<p><b>SR-0008 Inadequate workforce skills to support organisational strategy.</b></p>			
<p>Risk Management</p> <p><b>Linked to all YPO strategic risks.</b></p>	<p>Periodic assurance required that robust risk management arrangements are in place.</p>	<p>2013</p> <p>(Strategic Risks – Risk Management Process)</p>	<p>Undertake testing to confirm that controls are in place to ensure risk management remains robust and are working in practice.</p>
<p>Specific strategic risks not covered above.</p> <p><b>Linked to various YPO strategic risks dependent on full nature of work.</b></p>	<p>If YPO does not have sound arrangements in place for identifying and managing strategic risks, it could adversely impact upon the achievement of its strategic objectives.</p>	<p>2015</p> <p>(IT Application Controls – STEP; IT Application Controls – Navision)</p> <p>2014</p> <p>(Programme Management; Legal Arrangements; Business Continuity)</p> <p>2013</p> <p>(Framework Contracts)</p>	<p>For a sample of specific strategic risks, which are key to the achievement of strategic objectives, undertake testing to confirm that controls exist to mitigate the risks and are working in practice.</p>
<p>Risk based audits on areas of operational activity</p> <p><b>Linked to various YPO operational risks dependent on full nature of work.</b></p>	<p>Internal Audit reviews of areas of operational activity, on a cyclical basis, help provide assurances on the overall levels of control in place to mitigate relevant business risks.</p>	<p>2015</p> <p>(Audits on IT Arrangements and Security Arrangements are due to take place)</p> <p>2013</p> <p>(Customer Engagement; Sales; Supply Chain Operations)</p>	<p>For a sample of specific areas of operational activity, undertake testing to confirm that controls exist to mitigate the risks and are working in practice.</p> <p>There are operational risk registers in place covering:</p> <ul style="list-style-type: none"> <li>• Marketing</li> <li>• Procurement Services</li> <li>• Sales</li> <li>• Supply Chain Operations</li> <li>• ICT</li> </ul>

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
			<ul style="list-style-type: none"> <li>• Quality Assurance</li> <li>• HR &amp; People Support Services</li> <li>• Logistics</li> <li>• Trading</li> <li>• Customer Experience</li> <li>• Finance</li> </ul>
<p>Ongoing audit work at year-end.</p> <p><b>Linked to various YPO risks.</b></p>	<p>Annual allocation for plan achievement. First priority in new audit year.</p>	<p>Annually</p>	<p>To complete all audits ongoing at the end of December 2015 year-end, as detailed within Internal Audit's 2015 Annual Report.</p>
<p><b>Follow Up Audits</b></p>			
<p>Follow up on work undertaken and reported previously.</p> <p><b>Linked to various YPO strategic and operational risks dependent on full nature of work.</b></p>	<p>To ensure control issues identified from previous audit reports have been adequately addressed.</p>	<p>2015 (Main Financial Systems Follow Up)</p> <p>2013 (Marketing Follow Up)</p>	<p>Confirming implementation of agreed actions arising from recent Internal Audit reports, with emphasis placed on reports issued with high priority actions.</p>
<p><b>Liaison, Consultancy and Advice</b></p>			
<p>Input to YPO Committee function.</p> <p><b>Linked to various YPO strategic and operational risks dependent on full nature of work.</b></p>	<p>It is essential that Members of the YPO Committees are kept sufficiently informed of Management and Internal Audit activities at YPO.</p>	<p>Annually</p>	<p>Preparation of Internal Audit reports to YPO Committees. Attendance at YPO Committee meetings to present Internal Audit reports. Support as necessary to management attending YPO Committee meetings. Input to Member development / training regarding audit-related issues.</p>
<p>Liaison, consultancy and advice.</p> <p><b>Linked to various YPO strategic and operational risks dependent on full</b></p>	<p>It is essential to respond to Management when advice is requested / required and to ensure adequate</p>	<p>Annually</p>	<p>Audit resources utilised throughout the year as required.</p>

<b>Plan / Risk Area</b>	<b>Rationale For Undertaking Audit</b>	<b>Previous Audit</b>	<b>Comments</b>
nature of work.	liaison takes place with a view to maintaining good working relationships.		
<b>Additional Chargeable Activities</b>			
Investigate any areas of suspected fraud / irregularity.	Input by Internal Audit is essential to the proper independent investigation of some alleged irregularities. Poor investigations by others may lead to unacceptable outcomes and a continuance of the irregularity.	Annually	Any work required in this area to be agreed with YPO's senior management and / or Lead Authority Statutory Officers and the Plan adjusted accordingly.

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**YPO**  
**AUDIT SUB-COMMITTEE**  
**TO BE HELD ON**  
**6<sup>TH</sup> NOVEMBER 2015**

**TITLE: PRESENTATION OF THE ANNUAL AUDIT LETTER 2014 AND NOTICE OF THE CLOSURE OF THE AUDIT FOR 2014**

**REPORT OF: FINANCIAL CONTROLLER**

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**1. PURPOSE OF REPORT**

To present to Members the annual audit letter 2014 (attached as appendix 1).

**2. BACKGROUND INFORMATION**

- 2.1 The annual audit letter attached at appendix 1 is provided for member's comments prior to publishing on the YPO website.
- 2.2 The letter was discussed and agreed with YPO management on the 12<sup>th</sup> October 2015.
- 2.3 The letter summarises the findings previously presented to the Audit Sub Committee in the KPMG ISA260 report to those charged with governance.
- 2.4 The only piece of outstanding work in relation to the 2014 audit of statement of accounts is the publication of the notice of the closure of the audit. The advert is currently being developed by WMDC.
- 2.5 The advert for the closure of the audit will be displayed on the Organisations website and the following publications.

Yorkshire Post  
 Liverpool Echo  
 Bolton Evening News  
 Wigan Observer  
 Leigh Midweek

**3. STRATEGIC IMPLICATIONS**

3.1. None.

**4. FINANCIAL IMPLICATIONS**

4.1. As specified.

**5. LEGAL IMPLICATIONS**

5.1. Completion of the Annual Audit is a requirement of the Accounts and Audit Regulations 2011.

### **6. EQUALITY IMPLICATIONS**

6.1. None.

### **7. RISK IMPLICATIONS**

7.1. This is to raise awareness. Thus accepting the report does not in itself pose any risk to the organisations well-being.

### **8. RECOMMENDATION**

8.1 Members note the content of the Annual Audit Letter and note the intention to issue public notice of the closure of the audit and public inspection period.

#### **SERVICE DIRECTOR:**

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#### **CONTACT OFFICER:**

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#### **APPENDIX (CES):**

*Appendix 1 – 2014 Annual Audit Letter*



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# Annual Audit Letter 2014

**Yorkshire Purchasing Organisation**

**October 2015**

**The contacts at KPMG in connection with this report are:**

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**Report sections**

- Headlines

**Appendices**

1. Summary of reports issued

**Page**

2

3

This report is addressed to the Organisation and has been prepared for the sole use of the Organisation. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Organisation, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

**This report summarises the key findings from our 2014 audit of the Yorkshire Purchasing Organisation (the Organisation).**

**Although this letter is addressed to the Members of the Organisation, it is also intended to communicate these issues to key external stakeholders, including members of the public.**

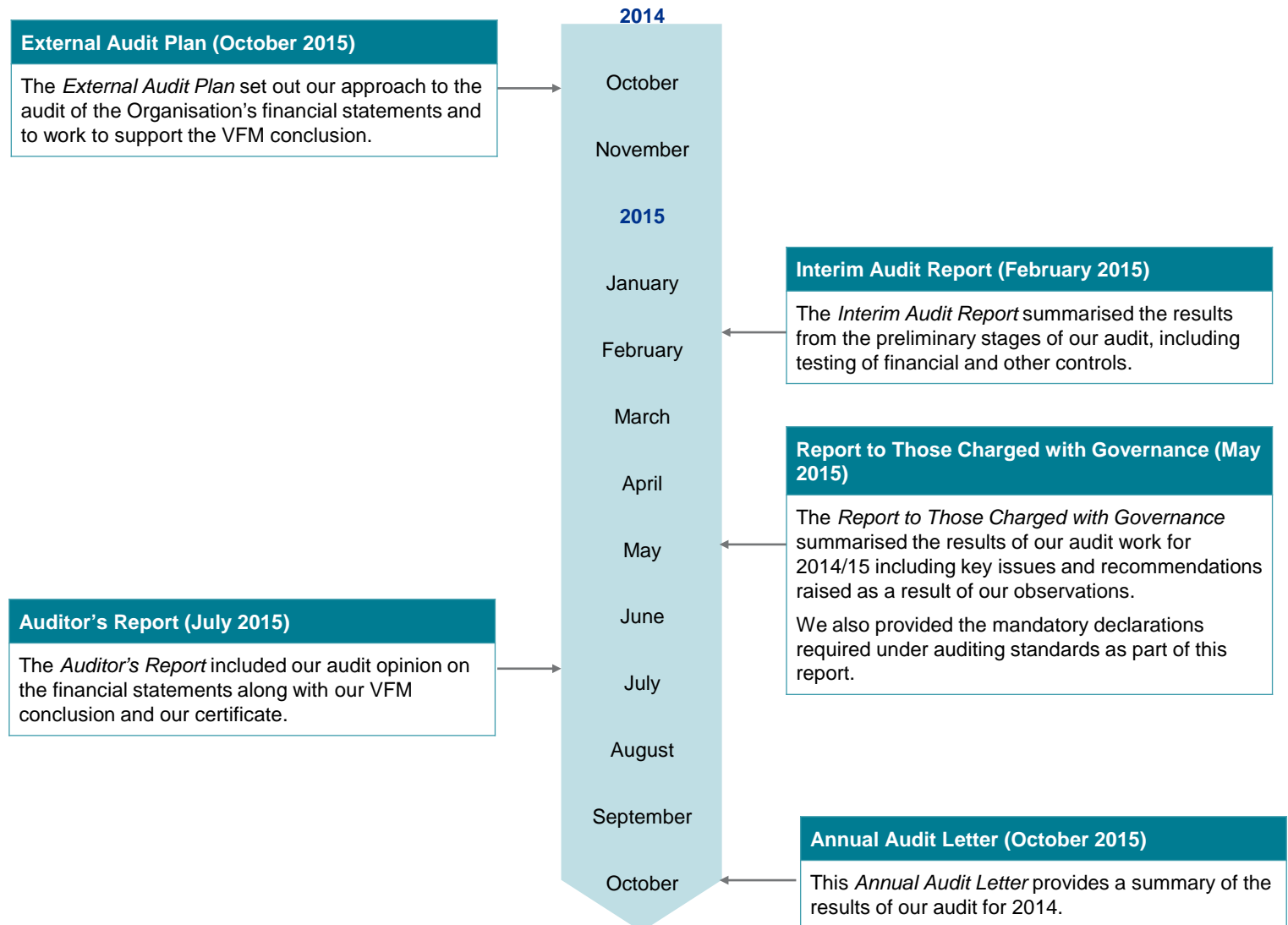
**Our audit covers the audit of the Organisation's 2014 financial statements and the 2014 VFM conclusion.**

**All the issues in this Annual Audit Letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.**

<b>VFM conclusion</b>	We issued an unqualified conclusion on the Organisation's arrangements to secure value for money (VFM conclusion) for 2014 on 1 July 2015. This means we are satisfied that the Organisation had proper arrangements for securing economy, efficiency and effectiveness.
<b>Audit opinion</b>	We issued an unqualified opinion on the Organisation's financial statements on 1 July 2015. This means that we believe the financial statements give a true and fair view of the financial position of the Organisation and of its expenditure and income for the year.
<b>Financial statements audit</b>	We identified two audit differences that, while not material, were brought to the attention of those charged with governance to help them with fulfilling their duties. The financial statements were not amended for these audit differences.
<b>Annual Governance Statement</b>	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
<b>Certificate</b>	We issued our certificate on 1 July 2015. The certificate confirms that we have concluded the audit for 2014 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
<b>Audit fee</b>	Our final fee for the 2014 audit was £28,318, which was in line with the planned fee.  We also charged £7,750 for tax advice relating to the limited company. This work was not related to our responsibilities under the <i>Code of Audit Practice</i> .

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.





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**YPO  
AUDIT SUB-COMMITTEE**

**TO BE HELD ON  
6 NOVEMBER 2015**

**TITLE:                    PROGRESS ON THE 2015 INTERNAL AUDIT PLAN**

**REPORT OF:            THE s151 OFFICER**

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**1        PURPOSE OF REPORT**

1.1      This report is produced by the s151 Officer to provide Members with details of Internal Audit's performance and work during the period May to October 2015.

**2        BACKGROUND INFORMATION**

2.1      The report attached at Appendix A records details of audit work undertaken between May and October 2015.

2.2      In line with agreed protocols, a further progress report will be submitted to the next meeting of the Audit Sub-Committee.

**3        STRATEGIC IMPLICATIONS**

3.1      Internal Audit's work includes involvement at a strategic level. A number of audits in the 2015 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 2015 budget approved by YPO Members.

**5        LEGAL IMPLICATIONS**

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

**6 EQUALITY IMPLICATIONS**

6.1 There are no direct implications relating to equality.

**7 RISK IMPLICATIONS**

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

7.2 In line with the terms of reference for the Audit Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

**8 RECOMMENDATION**

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

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

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# Internal Audit Progress Report

## As At October 2015

**REPORT OF:** Mark St Romaine, Service Manager – Internal Audit & Risk  
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**PURPOSE OF REPORT**

1. The purpose of this report is to:
  - 1.1 Present to the YPO Audit Sub-Committee details of Internal Audit’s performance and work during the period May to October 2015.
  - 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 2015 AUDIT PLAN**

2. Four Internal Audit reports have been issued since the last Internal Audit Progress Report was discussed at the YPO Audit Sub-Committee on the 15<sup>th</sup> May 2015, as detailed below:

Report	Audit Opinion in Report / Main Messages in Report	Actions Taken By WYJS
Main Financial Systems 2014 & Extended Testing Follow Up (18 <sup>th</sup> June 2015)	<p style="text-align: center;"><b>“Mostly Implemented”</b></p> <p>All of the actions from the Main Financial Systems 2014 audit have been fully implemented.</p> <p>Regarding the Extended Testing audit work, the number of “Super” users has been reduced but some still remain.</p>	The outstanding actions will be followed up on during the course of undertaking the next Main Financial Systems annual review in the latter part of 2015.
Anti-fraud & bribery arrangements (1 <sup>st</sup> July 2015)	<p style="text-align: center;"><b>“Mostly Effective”</b></p> <p>(The previous audit opinion, in March 2013, was “Mostly Effective”)</p> <p>In the main, fraud and bribery risks are being managed to an adequate level, with procedures in place to ensure that risks are controlled.</p> <p>However, some work is necessary with regards to the training of staff.</p>	<p>Actions taken based on information supplied by YPO include:</p> <ul style="list-style-type: none"> <li>• A Fraud Awareness Leaflet is to be produced by October 2015. It will form the basis of additional awareness and training including Toolbox Talks.</li> <li>• Once the Fraud Awareness Leaflet has been agreed, any non-</li> </ul>

Report	Audit Opinion in Report / Main Messages in Report	Actions Taken By WYJS
	<p>Pre-qualifying questionnaires and credit checks are not undertaken when new suppliers are used through a non-tendered process (work is ongoing to introduce new procedures in this area). In addition, records are not kept of the research undertaken.</p>	<p>completion of the E-Learning training will be followed up.</p> <ul style="list-style-type: none"> <li>The procedures for the vetting of all new suppliers have been standardised as follows: (i) Recording the research undertaken in selecting the supplier; (ii) Issuing a questionnaire to all new suppliers to gain assurance of the organisation's financial health, compliance with anti-fraud / bribery legislation and professional competence / integrity, and (iii) Undertaking credit checks against suppliers in significant investment projects.</li> </ul>
<p>IT Application Controls – Navision (4<sup>th</sup> September 2015)</p>	<p><b>“Fully Effective”</b></p> <p>The controls relating to the accuracy of the data imported into Navision are robust, with a full audit trail in place. Additionally, the back-up arrangements are working well.</p>	<p>No further action is required.</p>
<p>IT Application Controls – STEP (24<sup>th</sup> September 2015)</p>	<p><b>“Fully Effective”</b></p> <p>The controls relating to the accuracy of the data imported into STEP are robust, with a full audit trail in place. Additionally, the back-up arrangements are working well.</p> <p>The audit did identify one area where a minor control improvement could be made to enhance the existing controls.</p>	<p>The completed action plan is not due to be returned to Internal Audit until the 23<sup>rd</sup> November 2015.</p>

## Agenda Page 28

In addition, two Internal Audit reports (Main Financial Systems 2014; Project Management Toolkit) were discussed at previous Audit Sub-Committee meetings.

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

3.1 Main Financial Systems annual review and testing 2015.

Any control issues arising from this Internal Audit work will be raised with YPO management in due course and a report issued.

4. In terms of Internal Audit's performance against its own local Key Performance Indicators, the position as at October 2015 is summarised below:

4.1 A calendar year plan was agreed covering the period 1<sup>st</sup> January 2015 to 31<sup>st</sup> December 2015. The Internal Audit Service is on target to deliver jobs in line with the agreed plan.

4.2 Six client surveys have been issued in 2015 following completion of audit assignments. Five have been returned, three with an overall opinion of 'Very Good' and two with an overall opinion of 'Good'.

4.3 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**

5. The main emphasis of our work for the remainder of 2015 will be on:

5.1 Progressing the audit on Main Financial Systems 2015.

5.2 IT Arrangements.

5.3 Security Arrangements.

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

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



**YPO**  
**AUDIT SUB-COMMITTEE MEETING**  
**TO BE HELD ON**  
**6<sup>TH</sup> NOVEMBER 2015**

**TITLE: DEVELOPING RISK MANAGEMENT**

**REPORT OF: EXECUTIVE DIRECTOR**

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## **1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to advise the Board on options to develop Risk Management by building on its existing strengths and maximising the opportunities arising from new ways of working at YPO and developments in the risk management discipline.

## **2. BACKGROUND INFORMATION**

- 2.1 YPO has effective, well-managed risk management arrangements in place. These include a Risk Management Policy and Strategic Framework; qualitative and quantitative techniques for identifying, evaluating and managing risks such as the risk management lifecycle, FIRM (financial, infrastructure, reputational, marketplace) classification, a 3 x 3 risk matrix and clear risk treatment options (tolerate, treat, transfer, and terminate) that link into insurance, business continuity planning and internal audit; and strategic and operational risk registers that are reported on a regular basis. Arrangements were reviewed earlier in 2015 and changes were made to the risk matrix, the frequency or reporting and to better embed risk management in business planning.
- 2.2 Our existing arrangements are strong and provide a stable grounding from which to develop risk management further. There are also opportunities arising from new ways of working that we could take advantage of. The implementation of SharePoint will mean that many routine areas of work can be automated freeing up time and resources, and information can be managed and communicated more easily. Also, risk management as a discipline is evolving and improving, developing new techniques and guidance.
- 2.3 This report sets out for discussion some of the ways YPO could build on its strengths and maximise its opportunities to develop its overall approach to risk management and enable it to add more value.

### **Risk Culture and Risk Appetite**

- 2.4 Risk Culture is the values, beliefs, knowledge, attitude and understanding of risk shared by the employees of an organisation. Every organisation has a risk culture, whether recognised or not, which makes it significantly better or worse at managing the risks it takes to achieve its objectives. An effective risk culture enables and rewards individuals and groups for taking the right risks in an informed manner.

- 2.5 Risk appetite is the amount and type of risk that an organisation is prepared to take to achieve its objectives. It means different things to different people and is influenced by individuals' and groups' perceptions and experience of risk. Risk appetite expresses our inclination to take risks whilst risk tolerance sets the limit beyond which we will not take a risk (and is often given as an absolute such as a financial value). YPO already has a risk appetite, the question is whether we recognise it and how it influences decision making.
- 2.6 We could communicate our risk culture and risk appetite to the organisation so that everyone has a common understanding of them and how they influence our risk taking and decision making. This does not need to be a written statement, for example it could be a short video message by one of the Board members, uploaded on SharePoint.

### **Risk Management and Business Planning**

- 2.7 Risk Management and Business Planning are interdependent. The first stage of the Risk Lifecycle is to establish context and business planning provides that context by setting out the organisation's objectives. Risk management helps to contribute to the successful delivery of business planning objectives by identifying risks to their achievement.
- 2.8 YPO has started to integrate risk management more closely with business planning. In 2015 risks identified as part of the business planning process were passed to the Risk Audit & Assurance Officer, who worked with SLT to reassess them into the new format for inclusion on operational risk registers. Milestone 5 of the 2016 business planning cycle is a report to the Board in November 2015 summarising the risks emerging from the business planning presentations day in September and follow up meetings in October between SLT and the Risk Audit & Assurance Officer (Interim), and whether they should be incorporated into risk registers.
- 2.9 An effective way to capture and analyse business planning risks is to use the three step process of objectives – risks – controls. By starting with objectives (Step 1) we are more likely to identify the key risks to our success. If we start the discussion mid-way through at Step 2 (risks) then it's more likely that we will focus on the risks we are familiar with and already know how to control. Business planning is about looking forward and doing something different so we should expect the risks to be different too. And if we start at Step 3 (controls) then we are likely to put in place disproportionately high levels of control that can lead to inefficiency and waste. More importantly, we may be managing the wrong risks and not managing the right ones.

### **Risk Management and Decision Making**

- 2.10 Decision makers have a responsibility to consider the risks associated with the decisions they take, whether that involves choosing or rejecting options. To do so effectively they need information on those risks. Our standard report template has recently been revised to include sections on risk (and other) implications, but a quick check shows that this is rarely completed. Even when it is, there is no formal mechanism for risks identified in reports to feed into, or be escalated up to, risk registers if appropriate.
- 2.11 There are several things we could do to address this including:
- Provide guidance on how to complete this section, either in the report template (to be deleted in the actual report) or by hyperlinks to online guidance
  - Use the workflow function on SharePoint to circulate the draft report to anyone who may need to comment on, or be aware of comments in, all the 'implications' sections (the benefit of using SharePoint over email is that everyone will be working on the same draft of the report)

- Introduce decision risk registers that prompt consideration of both the risks of doing something and the risks of not doing it (these do not have to be used for every decision but are especially useful for strategic, programme or project decisions).

2.12 In addition to providing better risk management information in reports these measures should also increase awareness of risks and YPO's risk management approach for report authors, decision makers and across the organisation in general.

### Information Risk

2.13 Information risk is currently high on the agenda for risk managers and their professional bodies across the public and private sectors. It is a complex and rapidly changing area of risk and guidance is beginning to emerge on how best to approach it. Information risk includes, but is not limited to, cyber risk: it applies across the organisation and is not just an IT matter. There are many factors to information risk including:

- Non-compliance with regulatory requirements (more than 20 pieces of legislation including Data Protection Act, Freedom of Information Act, Transparency Code)
- Data and information security breaches (again the risk is not just electronic)
- Risks at each stage of the information management life cycle: creation / collection / capture; storage and retrieval: analysis and use; maintenance; disposal / deletion
- The nature of information eg structured and unstructured formats: often held in multiple versions / sources: all media (including photos, video and audio recording)
- Data quality: is it complete, accurate, valid, available, timely and consistent (when held in more than one place)?
- Not understanding and recognising the value of our information assets
- What is being said about the organisation on social media and web sites such as 'WhatDoTheyKnow.com' (where our FOI responses are collated by others)

2.14 We have not appointed a Senior Information Risk Owner (SIRO). This role is mandatory in some areas of the public sector (including Government Departments and the Health Service) but not yet in Local Government. However, the appointment of a SIRO is good practice and is usually seen by the Information Commissioner's Office (ICO) as a mitigating factor in the event of a data security breach. The SIRO will usually:

- Be a member of the management board, or have direct access to them
- Have overall ownership of information risk management arrangements and lead and champion them
- Have received training to ensure they understand their role and can deliver it effectively
- Maintain incident management protocols including reporting and escalating data security breaches
- Be the first point of contact with the ICO especially in regard to security breaches

2.15 Other options we might consider to improve information risk management include:

- Produce an Information Management Strategy and associated Action Plan: this would be an over-arching document building on existing work and setting out our information management objectives (from which we determine the risks to them)
- Produce a Retention Policy and Schedule: most service areas are aware of the length of time they need to keep documents and records but there is no over-arching policy. This will be particularly useful as we implement SharePoint as documents can be tagged with their approved retention and deletion dates on

upload. It will also help to ensure that information we are required to keep eg for FOI requests is not deleted inadvertently and will complement our existing Access to Information Policy and Guide to Information

- Carry out a risk assessment to determine our exposure to Social Media risk

### **Risk Management and Change Management**

- 2.16 Change is essential for growth and success. Change brings risk, but so does ignoring change. We often perceive the risks of making changes but don't always perceive the risks of not making changes, which can be just as significant. Risk is sometimes used as a reason for not doing something new or different, but this should only be acceptable once the risks have been identified, evaluated and assessed against our risk appetite. A low risk appetite can be a barrier to change and undermine successful change management. A common response to change is to put more controls in place but this is inefficient, it can lead to waste and becomes a barrier to change itself.
- 2.17 By raising awareness of risk management and providing opportunities for people to engage with it, we may help to overcome their risk concerns and barriers to change. A good way to do this is through risk workshops, and taking part in a risk workshop in the early stages of a project can often help new project groups to start to work as a team. Also, by always using the 3 step objective – risk – controls process in change management initiatives we can ensure controls are proportionate and efficient.

### **Opportunity Risk Management – Risk and Reward**

- 2.18 The same risk management techniques we use to manage threat risks (things that might go wrong, sometimes known as negative or downside risks) can also be used to manage opportunity risks (things that might go right, sometimes known as positive or upside risks). Just like threat risks, opportunity risks should ideally be considered from the start of a programme, project or process such as business planning.
- 2.19 True opportunity risks are not just the flipside of threat risks (if this doesn't happen then this risk won't come about) and identifying them can take practice, but techniques such as SWOT analysis can help if we take the approach that:
- As a result of [strength] [opportunity risk] may occur
  - As a result of [weakness] [threat risk] may occur
- 2.20 Another approach to opportunity risk management is to consider risk and reward: this is a familiar concept from investments. The ideal position is to exploit low risk / high reward options whilst avoiding high risk / low reward options. Low risk / low reward options will be part of everyday activities and decision making while high risk / high reward options need close oversight by the Board. A risk and reward matrix, based on the same format as the risk matrix, could be introduced to assess options.

### **Real Time Risk Management**

- 2.21 YPO is currently implementing SharePoint and this has many benefits for risk and assurance because it will enable us to:
- Raise awareness of risk management across YPO and help everyone fulfil their responsibilities under the Risk Management Policy to consider, identify and manage risks associated with their actions and within their control
  - Save time on routine work such as version control and policy review reminders
  - Reduce duplication in policies because they can be linked electronically

- Workflow documents such as draft reports and policies around the organisation for consultation and contributions
- Automate aspects of compliance such as electronic 'return slips' to say policies have been read and understood
- Assign and manage audit recommendations (in place of the SHE Assure system)
- Implement real time risk management, if we choose to

2.22 We have well documented risk registers that are reviewed, updated and reported to the Board and relevant Committees on a regular basis. However, risks rarely conform to a quarterly timetable. Uploading and managing risk registers on SharePoint (giving careful consideration to security and access rights) would enable risk owners to update their risks as and when relevant (eg after a decision, deadline or incident), using built in functionality to send reminders, alert updates and version control to manage changes. The Board and SLT would have access to look at the most up to date risk registers at any time without waiting for a quarterly report. The Risk Audit & Assurance Officer would retain oversight of the registers to provide advice, quality assurance and exception reports, for example when a risk is escalated across a threshold (eg from medium to high / amber to red).

### **Assurance**

2.23 We gain assurance about our risk management arrangements and systems of internal controls from a range of sources but we could adopt a more formal assurance model, which could be overseen by the Audit Sub-Committee and feed into the Annual Governance Statement. These are usually known as 'three lines of defence models':

- 1st line of defence: Business Operations – everyday risk and control environment
- 2nd line of defence: Oversight Functions – responsibilities and accountabilities, strategies, frameworks, policies, procedures, internal audit (may also be 3<sup>rd</sup> line)
- 3rd line of defence: Independent Assurance Providers – internal audit (but see above), external audit, benchmarking and reviews by professional bodies

The results of assurance reviews can be captured in an assurance map which is in a similar format to the risk matrix and is used to inform where resources need to be allocated or scaled back.

## **3. STRATEGIC IMPLICATIONS**

3.1 The proposals would enable risk management to contribute further to strategic planning and decision making, and to take advantage of new technology to increase efficiency.

## **4. FINANCIAL IMPLICATIONS**

4.1 At the time of writing there are no financial implications arising directly from this report. If investment is required in the longer term it will be delivered from existing budgets or new funding will be requested through YPO's business planning process.

## **5. LEGAL IMPLICATIONS**

5.1 Appointing a SIRO will help us to comply with Government guidance and best practice (a SIRO is mandatory in some but not all areas of the public sector). Publishing an overarching Information Management Strategy, Retention Policy and Schedule will further strengthen our good practice on compliance with information related regulation.

## **6. EQUALITY IMPLICATIONS**

6.1 None

### **7. RISK IMPLICATIONS**

7.1 The report sets out options to develop our risk management capability by building on its existing strengths and maximising the opportunities arising from new ways of working at YPO, and developments in the risk management discipline such as new and emerging techniques and guidance.

### **8. RECOMMENDATIONS**

- 8.1 Communicate our risk culture and risk appetite to the organisation so that everyone has a common understanding of them and how they influence our risk taking and decision making. This could be in the form of a short video statement by one of the Board members on SharePoint. (Para 2.4 – 2.6)
- 8.2 Adopt the three step process of Objectives – Risks – Controls throughout the business planning process so that we identify the most relevant risks and proportionate controls. (Para 2.7 – 2.9)
- 8.3 Publish guidance on what to consider and what to include in the ‘risk implications’ section of the report template and monitor usage. (Para 2.10 – 2.13)
- 8.4 Use the workflow option on SharePoint (once implemented across YPO) to circulate draft reports for completion of, or consultation on the ‘implications’ sections. (Para 2.11 – 2.13)
- 8.5 Introduce decision risk registers to support key decisions that set out the risks of taking action and the risks of not taking action. (Para 2.11 – 2.12)
- 8.6 Nominate a member of the Board to be the Senior Information Risk Owner (SIRO) (Para 2.13 – 2.14)
- 8.7 Produce an over-arching Information Management Strategy and Action Plan. (Para 2.15)
- 8.8 Produce and publish a Retention Policy and Schedule. (Para 2.15)
- 8.9 Carry out a risk assessment to identify our exposure to Social Media risk. (Para 2.15)
- 8.10 Offer risk workshops to project teams as a way of raising awareness and engaging people in risk management across YPO. If successful, this could be extended to other teams. (Para 2.16 – 2.17)
- 8.11 Introduce a risk and reward matrix and supporting guidance to help recognise and take advantage of opportunity risks. (Para 2.18 – 2.20)
- 8.12 Upload risk registers to SharePoint (with relevant security and access permissions) and work with risk owners to identify key dates and triggers for review, which are then set on SharePoint. (Para 2.21 – 2.22)
- 8.13 Consider the use of exception reports where the status of risks changes and agree triggers eg escalation from a medium to a high risk. (Para 2.21 – 2.22)
- 8.14 Introduce a ‘three lines of defence’ model to map sources of assurance to risks and report the results in the Annual Governance Statement. (Para 2.23)

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**APPENDIX (CES):**

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**YPO**  
**AUDIT SUB-COMMITTEE MEETING**  
**TO BE HELD ON**  
**6<sup>TH</sup> NOVEMBER 2015**

**TITLE: APPOINTMENT OF A SENIOR INFORMATION RISK OWNER (SIRO)**

**REPORT OF: EXECUTIVE DIRECTOR**

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## **1. PURPOSE OF REPORT**

1.1 The purpose of this report is to formally record the appointment of a Senior Information Risk Owner (SIRO), in accordance with information governance best practice.

## **2. BACKGROUND INFORMATION**

2.1 Information risk is high on the agenda for public and private sector organisations. It is a complex and dynamic area of risk that includes, but is not limited to, cyber risk: it applies across the organisation and is not just an IT matter. The appointment of a SIRO is seen as a key control in mitigating information risk.

2.2 We have not yet appointed a SIRO. This role is mandatory in some areas of the public sector (including Government Departments and the Health Service) but not in other areas including Local Government. However, the appointment of a SIRO is good practice and is usually seen by the Information Commissioner's Office (ICO) as a mitigating factor in the event of a data security breach. The SIRO will usually:

- Be a member of the management board, or have direct access to them
- Have overall ownership of information risk management arrangements and lead and champion them
- Have received training to ensure they understand their role and can deliver it effectively
- Maintain incident management protocols including reporting and escalating data security breaches
- Be the first point of contact with the ICO especially in regard to security breaches

2.3 Following consideration of a report on 21<sup>st</sup> September 2015 the Board have agreed to appoint a SIRO and that the Executive Director, Paul Smith, will take on the role. To support this, the Board have also agreed to a number of other actions, including:

- Produce an Information Management Strategy and Action Plan
- Produce a Retention Policy and Schedule and align this to our existing Access to Information Policy and Guide to Information
- Carry out information risk assessments to determine our exposure to various aspects of information risk such as social media risk

### 2.4 In addition to the above:

- The Executive Director will receive relevant training to assist him to fulfil the SIRO role
- The Head of Business Change & IT and the IT Delivery Manager will provide support to the Executive Director on the technical and cyber risk aspects of the SIRO role
- As already proposed, the Head of Business Change & IT will produce a quarterly report detailing:
  - Any major security incidents
  - Lost IT equipment
  - How many spam emails stopped
  - How much malware / infected PCs
  - Attempted hacks on the network
  - Major improvements or changes made or planned eg. the introduction of encrypted USBs
  - Issues in the wider world
- The report will be added to over time with appropriate information arising from, for example, the information risk assessments.

### **3. STRATEGIC IMPLICATIONS**

3.1 The appointment of a SIRO at Board level will help us to demonstrate to our customers that we take information management and risk seriously and will help to contribute to more efficient use of our information assets.

### **4. FINANCIAL IMPLICATIONS**

4.1 There are no additional staff costs to appointing a SIRO, other than some nominal training costs, as the role will be undertaken by the Executive Director. There may be some financial benefits in the event of an information security breach as the appointment of a SIRO may mitigate sanctions, including any fines imposed by the ICO.

### **5. LEGAL IMPLICATIONS**

5.1 There may be legal implications in the event of a data or information security breach but as the role of the SIRO is not mandatory in this area of the public sector, there are no specific or additional legal implications for the post holder of being the SIRO beyond the responsibilities of their substantive post.

### **6. EQUALITY IMPLICATIONS**

6.1 There are no equality implications of appointing a SIRO. However, supporting actions to improve our overall management of information, including how we use information assets and business intelligence, may have a positive effect on equality in the longer term.

### **7. RISK IMPLICATIONS**

7.1 The appointment of a SIRO is considered good risk management practice and a key mitigating factor in managing information risk, by giving it a high profile at Board level and across the organisation.

### **8. RECOMMENDATION**

8.1 The Board formally designate the Executive Director, Paul Smith, as the Senior Information Risk Owner (SIRO).

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**APPENDIX (CES):**

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**YPO**  
**AUDIT SUB-COMMITTEE**  
**TO BE HELD ON**  
**6<sup>TH</sup> NOVEMBER 2015**

**TITLE: CLOSE OF ACCOUNTS AND AUDIT 2015**

**REPORT OF: HEAD OF FINANCE**

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

1.1. To make Audit Sub Committee aware of the contents of the 2015 closedown timetable.

### **2. BACKGROUND INFORMATION**

2.1 The KPMG report to those charged with governance issued in April 2015 stated "Management have provided good quality draft accounts for audit. With the significant changes in the senior finance team it is a great achievement to produce the accounts to such a standard".

It was also noted that YPO has good financial reporting processes in place and this has helped ensure a smooth audit process, the quality of the working papers was good and officers resolved audit queries promptly.

2.2 Key points to note are that:-

- The Organisation has again set a realistic timescale for the production of the statement of accounts and is committed to build upon the significant improvements evidenced in previous years.
- The Organisation plans to present the Audited statement of Accounts for approval to the Audit Sub Committee now planned for 22<sup>ND</sup> April 2016.

2.3 Appendix 1 sets out the timetable for the closure and production of the 2015 Statement of Accounts and key dates in the Audit plan.

2.4 Appendix 2 sets out the resource implications for the Organisation, WMDC and KPMG.

### **3. RECOMMENDATION**

3.1. That Audit Sub Committee notes the plan and timetable.

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**APPENDIX (CES):**

*Appendix 1 - 2015 Closedown timetable and Audit Plan Key Dates*

*Appendix 2 – Resource Implications*

**APPENDIX (CES):**

***Appendix 1 – 2015 Closedown timetable and Audit plan key dates***

<b>Task</b>	<b>Deadline</b>	<b>Responsible</b>
Close down of 2015 year end	24/12/2015	YPO
Issue of advert for public inspection period	14/01/2016	YPO / WMDC
Completion of 2015 Annual Governance Statement	15/01/2016	YPO / WMDC
Receipt of pensions data	15/01/2016	YPO
Pre audit statement agreed with s151 officer	24/02/2016	YPO / WMDC
Pre audit statement to Audit Sub Committee	26/02/2016	YPO
Production of KPMG working File	26/02/2016	YPO
Beginning of public inspection period	29/02/2016	KPMG / YPO
Audit commences (checking process)	07/03/2016	KPMG / YPO
Audit finishes (checking process)	24/03/2016	KPMG/YPO
Closure of public inspection period	29/03/2016	KPMG / YPO
Letter of representation & report to those charged with governance	08/04/2016	KPMG/YPO
Audited statement agreed with s151 officer	08/04/2016	YPO / WMDC
Audit opinion and VFM conclusion.	22/04/2016	KPMG
Approval of the statement of accounts	22/04/2016	Audit Sub Committee

***Appendix 2 – Resource implications***

YPO

Full resource of the Financial Controller and Finance Business Partners is required with support from the Assistant Finance Business Partner and Head of finance during the production and completion of the 2015 statement and audit period January – March 2016.

WMDC

Technical advice will be required during the production of the statement and support / advice during the period of the Audit. Regular review sessions and sign off / review meetings will be required with the section 151 officer and members of her staff.

Input from WMDC internal audit on the production of the Annual Governance Statement and communication of the results of internal audit work to KPMG will be required.

KPMG

KPMG will require sufficient resource to complete the audit within the required timescale

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**YPO**  
**AUDIT SUB-COMMITTEE**  
**TO BE HELD ON**  
**6 NOVEMBER 2015**

**TITLE: EXTERNAL AUDIT PLAN**

**REPORT OF: FINANCIAL CONTROLLER**

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**1. PURPOSE OF REPORT**

1.1 To present to members the 2015 external audit plan.

**2. BACKGROUND INFORMATION**

2.1 Attached at Appendix A is the external audit plan, prepared by KPMG, for the 2015 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 in line with 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 Completion of the Annual Audit is a requirement of the Accounts and Audit Regulations 2011.

**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:**

**Name:** Paul Smith

**Job Title:** Executive Director

**Address:** YPO, 41 Industrial Park, Wakefield WF2 0XE

**Telephone No:** 01924 834969

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

### **CONTACT OFFICER:**

**Name:** Matthew Hirst

**Job Title:** Financial Controller

**Address:** YPO, 41 Industrial Park, Wakefield WF2 0XE

**Telephone No:** 01924 834964

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

### **APPENDIX (CES):**

*Appendix 1 – External Audit plan 2015*



*cutting through complexity™*

# External Audit Plan 2015

Yorkshire Purchasing Organisation

October 2015

**The contacts at KPMG in connection with this report are:**

**Rashpal Khangura**

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**Report sections**

	<b>Page</b>
■ Introduction	2
■ Headlines	3
■ Financial statements audit approach	4
■ Key financial statements audit risks	9
■ VFM audit approach	11
■ Audit team, deliverables, timeline and fees	12

**Appendices**

1. Independence and objectivity requirements	16
2. Quality assurance and technical capacity	17
3. Materiality and reporting of audit differences	19

This report is addressed to the Organisation and has been prepared for the sole use of the Organisation. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies* summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Organisation, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document describes how we will deliver our audit work for the Yorkshire Purchasing Organisation.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*. Although the Audit Commission formally closed at the end of March 2015 the Audit Commission Act 1998 and the Audit Commission's Code of Practice remain relevant for your audit for the year ending 31 December 2015.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Organisation. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

### Scope of this plan

This document describes how we will deliver our financial statements audit work for the Yorkshire Purchasing Organisation (YPO). This *External Audit Plan* supplements our *Audit Fee Letter 2015* sent to the Managing Director in October 2015, and also sets out our approach to value for money (VFM) work for 2015.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

### Structure of this plan

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

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

This section summarises the headline messages.

We have identified two key risks that we will focus on during the audit of the 2015 financial statements.

These are described in more detail on pages 9 and 10.

The remainder of this report provides further details on each area.

<b>Audit approach</b>	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, will be agreed with the Managing Director and Executive Director.</p> <p>Our audit strategy and plan remain flexible, and we will reconsider the impact on our plan as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<b>Key financial statements audit risks</b>	<p>We have completed our initial risk assessment for the financial statements audit and have identified two focus areas for our audit:</p> <ul style="list-style-type: none"> <li>■ Trading company</li> <li>■ New sales ledger and purchase ledger systems</li> </ul> <p>These are discussed in more detail on pages 9 and 10.</p>
<b>VFM audit approach</b>	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
<b>Audit team, deliverables, timeline and fees</b>	<p>Our audit team has two changes this year:</p> <ul style="list-style-type: none"> <li>■ Lizzie Wharton has returned as Manager, replacing Alastair Newall.</li> <li>■ Rashpal Khangura as Director, replacing Trevor Rees.</li> </ul> <p>Our main year end audit is currently planned to commence in March 2015, and on conclusion of our work we will present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2015 audit is £28,318, which is the same as in 2014.</p>

We undertake our work on your financial statements in four key stages:

- Planning (November)
- Control Evaluation (November/December)
- Substantive Procedures (March/April)
- Completion (April)

We have summarised the four key stages of our financial statements audit process for you below:

			Nov	Dec	Jan	Feb	Mar	Apr
1	<b>Planning</b>	<ul style="list-style-type: none"> <li>■ Update our business understanding and risk assessment.</li> <li>■ Assess the organisational control environment.</li> <li>■ Determine our audit strategy and plan the audit approach.</li> <li>■ Issue our <i>Accounts Audit Protocol</i>.</li> </ul>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2	<b>Control evaluation</b>	<ul style="list-style-type: none"> <li>■ Evaluate and test selected controls over key financial systems.</li> <li>■ Review the internal audit function.</li> <li>■ Review the accounts production process.</li> <li>■ Review progress on critical accounting matters.</li> </ul>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3	<b>Substantive procedures</b>	<ul style="list-style-type: none"> <li>■ Plan and perform substantive audit procedures.</li> <li>■ Conclude on critical accounting matters.</li> <li>■ Identify audit adjustments.</li> <li>■ Review the Annual Governance Statement.</li> </ul>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4	<b>Completion</b>	<ul style="list-style-type: none"> <li>■ Declare our independence and objectivity.</li> <li>■ Obtain management representations.</li> <li>■ Report matters of governance interest.</li> <li>■ Form our audit opinion.</li> </ul>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Agenda Page 51

During November and December we complete our planning work.

We assess the key risks affecting the Organisation's financial statements based on our historical and sector knowledge.

We assess if there are any weaknesses in respect of central processes, including the Organisation's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Organisation to support the financial statements.

Our planning work takes place in November and December 2014. This involves the following aspects:

### Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

### Business understanding and risk assessment

We update our understanding of the Organisation's operations and identify any areas that will require particular attention during our audit of the Organisation's financial statements.

We identify the key risks affecting the Organisation's financial statements. These are based on our knowledge of the Organisation, our sector experience and our ongoing dialogue with Organisation staff. The risks identified to date are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Organisation's responsibility to adequately address these issues. We encourage the Organisation to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet regularly with the Managing Director, the Executive Director, the Head of Finance and the Financial Controller to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

The Organisation relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

### Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Partner.

Our initial indicative level of materiality for 2015 is £2 million for YPO. This is based on the prior year Statement of Accounts and on our understanding of the projected trading for the current year. This figure is a guide only, and will be revisited during the year to ensure it remains appropriate. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. Appendix 3 has further details on materiality.

### Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Organisation to provide during our interim and final accounts visits.

During November and December we complete our interim work.

We assess if controls over key financial systems were effective during 2015. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

If required, we will present our *Interim Report* to the Audit Sub Committee.

Our interim visit on site will be completed during November and December 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

### Controls over key financial systems

We update our understanding of the Organisation’s key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Organisation’s internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We will discuss the principles and timetables for the managed audit process for 2015 with the Head of Internal Audit and Internal Audit Manager for the Organisation.

### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If, following the completion of our control evaluation work, there are control weaknesses or other matters to bring to the Organisation’s attention, we will issue an *Interim Report* and present this to the Audit Sub Committee.

During March we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report* to the Audit Sub Committee in April, depending on the progress of the audit.

Our on site visit to audit the draft financial statements will start on 7 March 2016. At this visit we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify audit adjustments.
- Review the Annual Governance Statement.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Organisation's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of the key risk areas as identified at the planning stage and any additional issues that may have emerged since.

### Audit adjustments

During our on site work, we will meet with the officers on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Sub Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*.

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

**Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.**

**We confirm our audit team's independence and objectivity is not impaired.**

### **Elector challenge**

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### **Reporting and communication**

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Executive Director, the Head of Finance and the Audit Sub Committee. Our deliverables are included on page 9.

### **Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Sub Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

### **Confirmation statement**

We confirm that as of 1 September 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

For each key risk area we have outlined the impact on our audit plan.

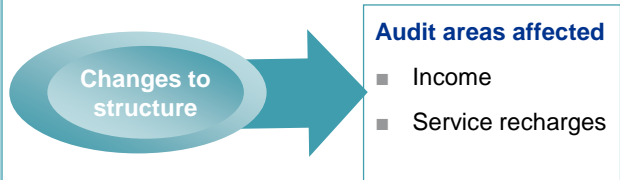
We will provide an update on how the Organisation is managing these risks in our Interim Audit Report.

Professional standards require us to consider two inherent risks for all organisations. We do not elaborate on these standard risks in this plan, but consider them as a matter of course in our audit, and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk. We will consider the incentives and opportunities to misstate revenue and focus our testing in these areas.

Based on our planning work to date, we have not identified any additional significant risks, as defined by the International Standards on Auditing. We have however identified two focus areas which, while not significant, will impact on our audit approach and the work we carry out. These are reported below and on page 10.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Focus areas	Impact on audit
	<p><b>Risk</b></p> <p>The 13 full member 'owners' of YPO established a new trading company in 2014 to enable trading with non-public sector bodies and 2015 was the first full year of operation. Although not directly related to YPO, the company will purchase supplies and services from YPO.</p> <p>In carrying out the audit of YPOs accounts we will need to obtain assurance that there are robust and enforced service level agreements in place to ensure that the trading and recharging of costs between YPO and the company are carried out on a commercial basis.</p> <p><b>Our audit work</b></p> <p>We will hold early discussions with officers during the interim work in November 2015, we will review the service level agreements, and pricing documents taking into account the work done by YPO already, to ensure that the risk of material misstatement by error or fraud in YPOs accounts are minimised.</p>

For each key risk area we have outlined the impact on our audit plan.

We will provide an update on how the Organisation is managing these risks in our *Interim Audit Report*.

Focus areas	Impact on audit
<p><b>Audit areas affected</b></p> <ul style="list-style-type: none"> <li>■ Turnover</li> <li>■ Cost of sales</li> <li>■ Debtors</li> <li>■ Creditors</li> </ul>	<p><b>Risk</b></p> <p>YPO has introduced a new sales ledger and a new purchase ledger during the course of 2015.</p> <p>We need to understand the operation of the new systems and assess the success of the implementation in order to evaluate this risk and the impact on the financial statements.</p> <p><b>Our audit work</b></p> <p>We will hold early discussions with the Financial Controller and Head of IT to understand how the new systems contribute to the preparation of the financial statements.</p> <p>IT trained members of the audit team with test the implementation and operation of the new systems.</p>

**Our approach to VFM work follows guidance provided by the Audit Commission.**

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year.

For 2015 the scope of work on value for money at the Organisation is limited to:

- reviewing the Annual Governance Statement (AGS);
- reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on our responsibilities; and

- other risk-based work as appropriate.

We are not aware of any relevant work of other regulatory bodies or inspectorates.

At this stage we have not identified specific risk-based work.

Our work will only comprise a review of your AGS. As part of this review we will consider:

- your progress in addressing the recommendations included in the *Report to Those Charged with Governance (ISA 260 Report) 2013*;
- any changes to your arrangements in 2015.

We will report the results of the VFM audit in our *Report to Those Charged with Governance*.

**Our audit team has two changes this year:**

**Lizzie Wharton has returned as Manager, replacing Alastair Newall.**

**Rashpal Khangura as Director, replacing Trevor Rees.**

**Contact details are shown on page 1.**

**The audit team will be assisted by other KPMG specialists as necessary.**



Rashpal Khangura  
**Director**

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Sub Committee, the Management Committee and the Managing Director.”



Matthew Moore  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work. I will liaise with the Corporate Finance Manager and Internal Audit. I will also supervise the work of our audit assistants.”



Lizzie Wharton  
**Manager**

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Organisation's officers prior to publication.

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>Outline audit approach.</li> <li>Identify areas of audit focus and planned procedures.</li> </ul>	<b>October 2015</b>
<b>Control evaluation</b>		
<b>Interim Report</b> (if required)	<ul style="list-style-type: none"> <li>Details and resolution of control and process issues.</li> <li>Identify improvements required prior to the issue of the draft financial statements and the year-end audit.</li> </ul>	<b>February 2016</b>
<b>Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>Details the resolution of key audit issues.</li> <li>Communication of adjusted and unadjusted audit differences.</li> <li>Performance improvement recommendations identified during our audit.</li> <li>Commentary on the Organisation's value for money arrangements.</li> </ul>	<b>April 2016</b>
<b>Completion</b>		
<b>Auditor's report</b>	<ul style="list-style-type: none"> <li>Providing an opinion on your accounts (including the Annual Governance Statement).</li> <li>Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>April 2016</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>June 2016</b>

We will be in continuous dialogue with you throughout the audit.

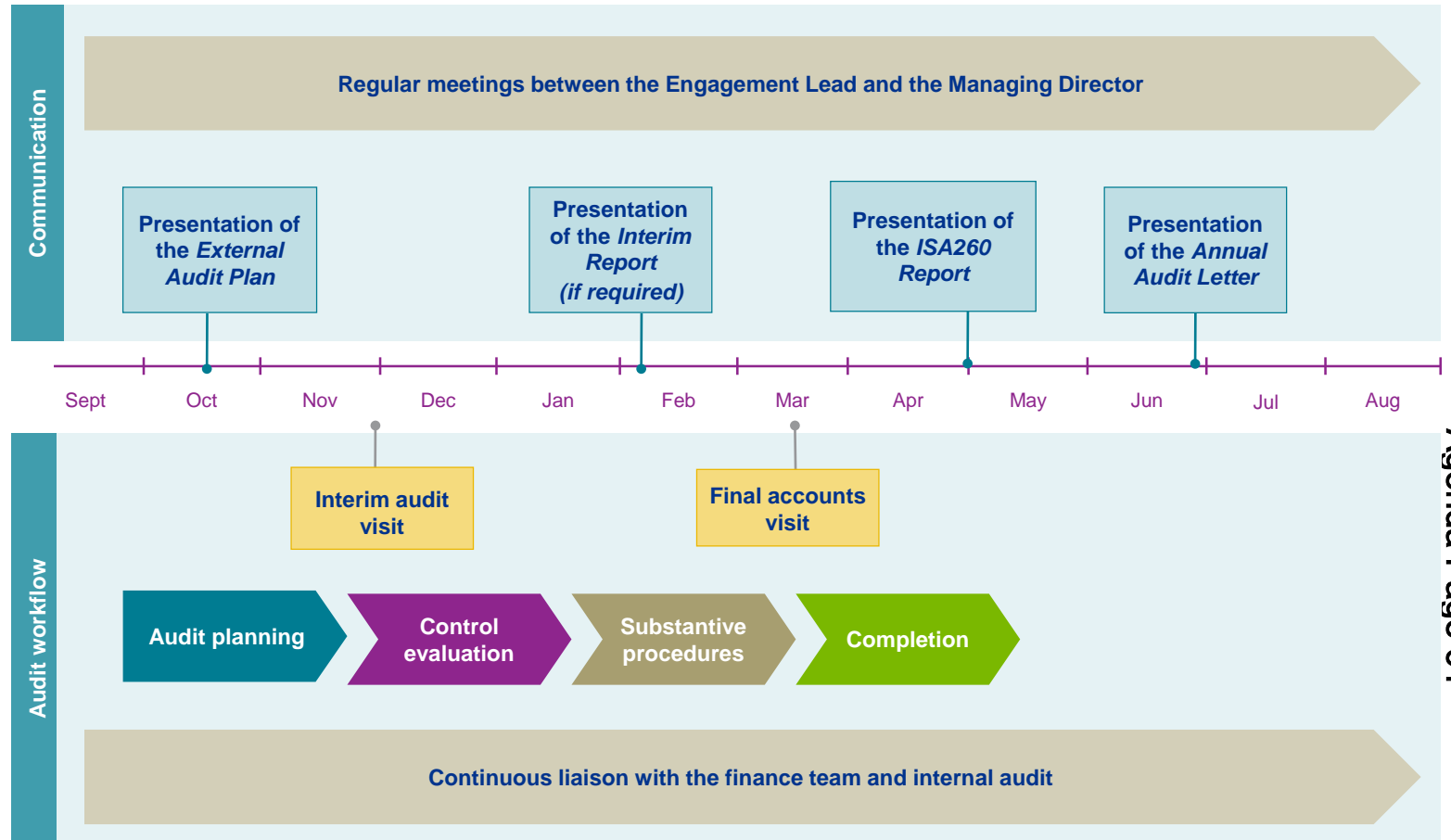
Key formal interactions with the Management Committee and Audit Sub Committee are:

- October – Financial Statements Audit Plan;
- February – Interim Report (if required);
- April – ISA 260 Report;
- June – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during November/December.
- Final accounts audit visit during March.



Key: ● Management Committee and Audit Sub Committee meetings.

The main fee for 2015 audit of the Organisation is £28,318. This is that fee that is set out in our *Audit Fee Letter 2015* sent to the Managing Director in October 2015.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

### Audit fee

Our *Audit Fee Letter 2015* sent to the Managing Director in October 2015 set out our fees for the 2015 audit. Based on our planning work to date we have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2015 (planned)	2014 (actual)
Gross audit fee	£28,318	£28,318
<b>Total</b>	<b>£28,318</b>	<b>£28,318</b>

The fee for 2015 audit is set by the Audit Commission at £28,318, which includes our work on the VFM conclusion and our audit of the Organisation's financial statements.

### Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013;
- you will inform us of any significant developments impacting on our audit;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;

- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Organisation achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Managing Director.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Organisation invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

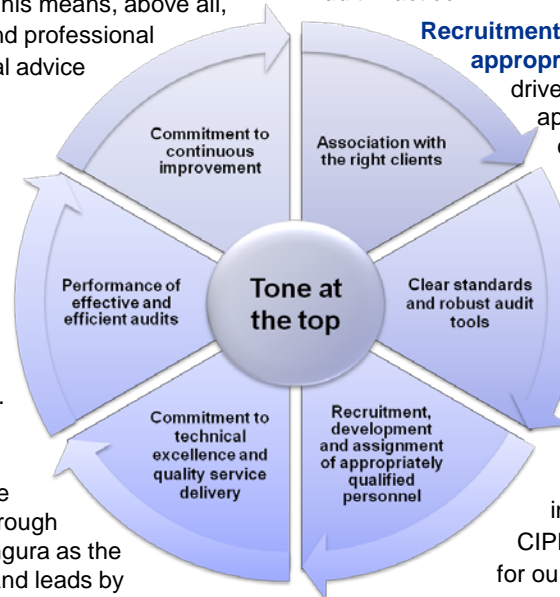
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Rashpal Khangura as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment , development and assignment of appropriately qualified personnel:**

One of the key drivers of audit quality is assigning professionals appropriate to YPO's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

### **Commitment to technical excellence and quality service delivery**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

### **Performance of effective and efficient audits**

We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

### **Commitment to continuous improvement**

We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

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### Materiality

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

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

Materiality for planning purposes has been set at £2 million for YPO's accounts, which equates to around 2 percent of gross turnover.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Corporate Governance & Audit Committee

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

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

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

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

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



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