Your Ref.
Our Ref
Please Reply To **Kathryn McGowan**
Telephone No (01924) 305338
Email kmcgowan@wakefield.gov.uk
Date 10 October 2013

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

Dear Member

YPO AUDIT SUB-COMMITTEE – FRIDAY, 18 OCTOBER 2013

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, 18 October 2013 in the YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda attached.

Please note that a training session for Members will take place before the meeting, starting at 10.00am.

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.

This agenda can be provided in large type, cassette, Braille or in another format or language if required. Please contact the person named above to discuss your requirement.

YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE - Friday, 18 October 2013

AGENDA

1.	Chair's Introduction and Welcome.	
2.	Acceptance of Apologies for Absence.	
3.	To approve, as a correct record, the Minutes of the meeting held on 19 July 2013.	(Pages 1 - 3)
4.	Members' Declaration of Interest.	
5.	To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.	
6.	Internal Audit Progress.	(Pages 5 - 9)
7.	Internal Audit Plan 2014.	(Pages 11 - 17)
8.	Risk Management.	(Pages 19 - 36)
9.	Year End Closedown Timetable.	(Pages 37 - 64)
10.	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 11 to 14 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended" **IN PRIVATE**	
11.	Risk Register.	(Pages 65 - 101)
12.	Internal Audit Action Update.	(Pages 103 - 111)
13.	Business Continuity Plan.	(Pages 113 - 253)
14.	Outstanding Debtors Policy.	(Pages 255 - 262)
15.	Date and Time of Next Meeting. The next meeting of the YPO Audit Sub-Committee will be held on 7 February 2014 at 10.00am.	

YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE

Friday, 19 July 2013

Present: The Chair – Councillor Shaw (Wakefield MDC)
Councillors Barnard (Barnsley MBC), Williams (Doncaster MBC) and Walker (Wigan MBC)

1. ELECTION OF CHAIR

The Corporate Director opened the meeting and requested nominations from Members for the position of Chair of the YPO Audit Sub-Committee for the forthcoming year. A nomination was received on behalf of Councillor Shaw (Wakefield MDC) and seconded.

Resolved – That Councillor Shaw of Wakefield MDC be elected Chair of the YPO Audit Sub-Committee for 2013/14.

2. CHAIR'S INTRODUCTION AND WELCOME

The Chair, Councillor Shaw, welcomed new and existing Members to the meeting.

3. APOLOGIES FOR ABSENCE

Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Iqbal (Bolton MBC).

4. MINUTES - 26 APRIL 2013

Resolved – That the Minutes of the meeting of the YPO Audit Sub-Committee held on 26 April 2013 be approved as a correct record.

5. MEMBERS' DECLARATION OF INTEREST

No declarations of interest were made.

6. TRAINING PROGRAMME

Members were asked to note the training programme for the Audit Sub-Committee for 2013/14 which had been previously agreed with the Chair. Members were informed that the programme would be delivered in half hour slots immediately prior to each meeting starting in October.

A Member requested that pension liability be added to the training programme.

Resolved – That the report be noted.

7. INTERNAL AUDIT PROGRESS

A report of the s151 Officer provided details of Internal Audit performance and work during the period April to July 2013. Two audit reports had been issued since the last meeting of the Sub-Committee and each was explained in detail.

Resolved - That the Internal Audit Progress Report, attached as Appendix A to the report of the s151 Officer, be endorsed.

8. RISK MANAGEMENT PROCESS

A report of the Corporate Director provided assurances that work was progressing in managing and reviewing strategic and operational risk. Members were informed that a full review of the Strategic and Operational Risk Registers were carried out during the second quarter of 2013.

Resolved – That the progress made towards the management of risk be noted.

9. POLICIES AND PROCEDURES

Consideration was given to a report which provided a list of policies and procedures produced by YPO and which formed the basis on how the Organisation operated.

Members asked if more detail could be provided on a particular policy/procedure and included as a future agenda item.

Resolved – That the report be noted.

10. ANNUAL AUDIT LETTER

A report of the Corporate Director presented to Members the Annual Audit Letter 2012, attached as Appendix 1 to the report. Tabled at the meeting, was the notice of conclusion of the audit for 2012.

Members were made aware of an additional fee required for work not processed at the year end. Assurances were given, by KPMG, that the audit fee would not increase and that this was an exceptional circumstance.

Resolved – That the content of the Annual Audit Letter and the intention to issue the public notice of the closure of the audit and public inspection period, be noted.

11. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Consideration was given to a report of the s151 Officer which provided Members with information regarding the new professional standards for Internal Audit and a supporting CIPFA Application Note. Members were informed that the new standards, Public Sector Internal Audit Standards (PSIAS), came into force on 1 April 2013. It replaced the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 as recognised “best practice” for delivery of an effective Internal Audit function within Local Government, as required by the Accounts and Audit Regulations 2011.

Members were made aware of the three key tasks to be undertaken by the Head of Internal Audit in response to the introduction of PSIAS.

Resolved – (1) That the introduction of the new PSIAS and supporting Application Note, be noted.

(2) That support be given to the proposed undertaking of a self-assessment against the new standards by the Head of Internal Audit and that a report be submitted to a future meeting.

(3) That reference be made to the standards whilst monitoring the role and effectiveness of Internal Audit.

12. EXCLUSION OF THE PUBLIC AND PRESS

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

IN PRIVATE

13. RISK REGISTER

Members gave consideration to a report of the Corporate Director which provided the Strategic Risk Register for YPO along with details of amendments made to the Operational Risk Registers in the second quarter of 2013.

Members raised a number of issues and responses from Officers were accepted.

Resolved – (1) That the changes made to the Strategic Risk Register, be approved.

(2) That the changes made to the Operational Risk Registers during Q2 2013, be approved.

14. INTERNAL AUDIT ACTION UPDATE

A report of the Risk Audit and Assurance Officer provided an update as to the progress made towards agreed actions resulting from internal audits completed at YPO as part of the Annual Audit Plan by Wakefield MDC Internal Audit.

Resolved - That the progress made towards agreed actions resulting from internal audits be noted.

15. DATE AND TIME OF NEXT MEETING

Resolved – That the next meeting of the YPO Audit Sub-Committee be held on 18 October 2013 at 10.30am with a 30 minutes training session before (starting at 10.00am).

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YPO	YPO AUDIT SUB-COMMITTEE TO BE HELD ON 18 OCTOBER 2013

TITLE: PROGRESS ON THE 2013 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 July to September 2013.

2 BACKGROUND INFORMATION

2.1 The report attached at Appendix A records details of audit work undertaken, and reports issued, between July and September 2013.

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 2013 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 2013 budget approved by YPO 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 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, DIRECTOR OF FINANCE, PROPERTY & RESOURCES – WAKEFIELD COUNCIL

CONTACT OFFICERS: ALAN TILL, SERVICE MANAGER INTERNAL AUDIT & RISK – WAKEFIELD COUNCIL; CARL TWEED, AUDIT MANAGER – WAKEFIELD COUNCIL

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APPENDIX A

Internal Audit Progress Report
July – September 2013

REPORT OF: Alan Till, Service Manager – Internal Audit & Risk

CONTACT OFFICER: Carl Tweed, Audit Manager
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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 July to September 2013.

   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 2013 AUDIT PLAN

2. 1 Internal Audit report has been issued since the last Internal Audit Progress Report was discussed at the YPO Audit Sub-Committee on the 19th July 2013.

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
Sales – 03/09/13	**Fully Effective** There are sound controls in place and operating effectively as a means of managing the potential impact of the risks reviewed. The audit did identify some areas where minor control enhancements could be made.	The action plan is not due to be returned until the 26th October 2013.

3. 6 Internal Audit reports were issued during the period January to July 2013:

   - Data Quality – 07/01/13
   - Supply Chain Operations – 18/01/13
   - Strategic Risks – Risk Management Process – 21/02/13
   - Anti-Fraud And Bribery Arrangements – 06/03/13
   - Framework Contracts – 24/06/13
   - Marketing Follow Up – 09/07/13

   These were discussed at the YPO Audit Sub-Committees on the 8th February, 26th April 2013 and 19th July 2013. The current position on implementing the agreed actions in these reports is recorded in a separate Audit Sub-Committee report produced by YPO management outlining progress made in implementing audit recommendations.

4. The following Internal Audit work is currently ongoing:

   4.1 Customer Engagement.

   4.2 IT DAWN Application Controls.

   4.3 Main Financial Systems (Ordering and Creditors – Working Expenses including Hired Carriers; Ordering and Creditors – Business Creditors; Main Accounting

System; Payroll; Debtors – Business Income; Debtors – Non-Business Income; Budgetary Control; Asset Management; Stock Control)

4.4 Provision of support to YPO Committee function.

4.5 Liaison and advice relating to governance / control issues.

Any control issues arising from this Internal Audit work will be raised with YPO management in due course and, where appropriate, reports issued.

5. In terms of Internal Audit's performance against its own local Key Performance Indicators, the position as at September 2013 is summarised below:

5.1 A calendar year plan was agreed covering the period 1st January 2013 to 31st December 2013. The Internal Audit Service is on target to deliver jobs in line with the agreed plan.

5.2 6 client surveys were issued following completion of the 7 audit assignments referred to in paragraphs 2 and 3. All surveys were completed and returned, 4 with an overall opinion of 'Good' and 2 with an overall opinion of 'Very Good'.

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

WORK PRIORITIES FOR THE PERIOD OCTOBER TO DECEMBER 2013

6. The main emphasis of our work for the period October to December 2013 will be:

6.1 Completing the audits on Customer Engagement, IT DAWN Application Controls and Main Financial Systems.

6.2 Undertaking audits on Business Continuity and Legal Arrangements.

OUTSTANDING REPLIES TO AUDIT REPORTS

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

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	YPO **AUDIT SUB COMMITTEE** **TO BE HELD ON** **18TH OCTOBER 2013**

TITLE: 2014 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 2014 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 Director of Finance, Property & Resources, being the statutory s151 Officer to YPO. The overall strategy for provision of the Internal Audit service is specified within the Internal Audit Annual Strategic Plan, approved by Wakefield Council. The Internal Audit Annual Strategic Plan 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 Director of Finance, Property & Resources and Managing Director of YPO for approval. It is then submitted to the YPO Corporate Management Team 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 the following factors:

a) materiality and associated risks;

b) significance to achieving YPO objectives;

c) risk management, performance management and other assurance processes in place;

d) assessed controls in systems;

e) importance in terms of sensitivity and public accountability;

f) assurance required by External Audit linked to its accounts and other governance work.

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 2014 is attached as Appendix A for Member consideration and comment, including suggesting any specific areas where Members feel that Internal Audit reviews should be undertaken during 2014. It breaks down the areas of potential audit activity into:

a) Main Financial Systems Audits;

b) Follow Up Audits;

a) Liaison, Consultancy and Advice;

b) Other Risk Based Audit Work.

c) Additional Chargeable Activities.

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 2014, 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, DIRECTOR OF FINANCE, PROPERTY & RESOURCES – WAKEFIELD COUNCIL

CONTACT OFFICERS: ALAN TILL, 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 2014

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

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
Main Financial Systems			
Main Financial Systems - annual review and testing	High volume and value of transactions. When the External Auditor undertakes its work to provide assurance that the accounts are not materially mis-stated, it refers to Internal Audit's work on main financial systems. Also assurance provided to s151 officer.	2013	The systems to be reviewed are: • Ordering and Creditors – split between: (i) Working Expenses including Hired Carriers, and (ii) Business Creditors • Main Accounting System • Payroll • Debtors – split between: (i) Business Income, and (ii) Non-Business Income • Budgetary Control • Asset Management • Stock control (To be audited between July and December 2014).
Follow Up Audits			
Follow up on work undertaken and reported previously	To ensure control issues identified from previous audit reports have been adequately addressed.	2013	The work will concentrate on confirming implementation of agreed actions arising from recent Internal Audit reports, with emphasis placed on reports issued with high priority actions. (To be audited at various stages in 2014).
Liaison, Consultancy			

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
and Advice			
Input to YPO Committee function.	It is essential that Members of the YPO Committees are kept sufficiently informed of Management and Internal Audit activities at YPO.	2013	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.
Liaison, consultancy and advice	It is essential to respond to Management when advice is requested / required and to ensure adequate liaison takes place with a view to maintaining good working relationships.	2013	Audit resources to be utilised throughout 2014 as required.
Other Risk Based Audit Work			
New systems / initiatives being developed	To ensure projects are properly established, best practice is adhered to regarding procurement routines and best value is obtained. Internal Audit involvement helps ensure that adequate controls are built into all new systems.	2013	New systems / initiatives being developed in 2014 to be confirmed with YPO senior management.
Annual	Key documents	2012 (i) /	(i) Involvement as necessary in

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
Governance Statement and Code of Corporate Governance	required to meet statutory requirements.	2011 (ii)	formulating and agreeing documents, including the Annual Governance Statement. (ii) To undertake testing to validate supporting evidence. (Timing of audit input to be confirmed with YPO senior management).
Anti-fraud and bribery arrangements / testing	Potential impact on YPO if fraud and / or bribery were to occur.	2013	In addition to gaining continuing assurance that adequate risk management arrangements are in place to prevent fraud and / or corruption, to undertake proactive testing on work areas which could be susceptible to fraud and / or corruption if controls have lapsed. (Timing of audit to be confirmed with YPO senior management).
Strategic risks	The organisation needs to have sound arrangements in place for identifying and managing strategic risks linked to the organisation's business objectives: (i) delivering customer service; (ii) ensuring YPO maintains competitiveness; (iii) sales growth, and (iv) developing new products.	2013 (Overall risk management process; Business Continuity; Legal arrangements)	(i) To examine the overall risk management process as it relates to the strategic risk register, i.e. risk identification, risk analysis, risk prioritisation, risk appetite, risk treatment and risk monitoring. (ii) For a sample of specific strategic risks undertake testing to confirm that controls exist to mitigate the risks and are working in practice. (Timing of audit to be confirmed with YPO senior management).
Other risk based audits to be	Internal Audit reviews of other	2013	For a sample of specific areas of operational activity, undertake

Plan / Risk Area	Rationale For Undertaking Audit	Previous Audit	Comments
identified during preparation of Internal Audit Plan for 2014	areas of operational activity, on a cyclical basis, helps provide assurances on the overall levels of control in place to mitigate relevant business risks.	(Data Quality; Framework Contracts; Supply Chain Operations; Marketing Follow Up; Sales; Customer Engagement; IT DAWN Application Controls)	testing to confirm that controls exist to mitigate the risks and are working in practice. (Timing of audit to be confirmed with YPO senior management).
Additional Chargeable Activities			
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** **18TH OCTOBER 2013**

TITLE: RISK MANAGEMENT UPDATE

REPORT OF: THE CORPORATE DIRECTOR

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1 PURPOSE OF REPORT

1.1. To provide Audit Sub Committee with assurance that work is progressing in managing and reviewing strategic and operational risk.

2 BACKGROUND INFORMATION

2.1. A risk register is a documented record of the risk faced by an organisation including an assessment of the level of risk, details of the controls currently in place, details of additional controls that are required and details of the owner of the risk.

2.2. Reviews of the YPO Risk Register are regularly reported to the Board and Audit Sub Committee, the last report having been placed before Board in September 2013 and Audit Sub Committee in July 2013.

2.3 The Strategic Risk Register details risks to the achievement of the organisation's strategic objectives. A full review of the Strategic Risk Register was carried out during the third quarter of 2013.

2.4 The Operational Risk Registers detail risks to the achievement of operational objectives. A full review of the Operational Risk Registers was carried out during the third quarter of 2013.

3. STRATEGIC IMPLICATIONS

3.1 None.

4. FINANCIAL IMPLICATIONS

4.1 None.

5. LEGAL IMPLICATIONS

5.1 None.

6. EQUALITY IMPLICATIONS

6.1 None.

7. RISK IMPLICATIONS

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

8. RECOMMENDATION (S)

8.1 That Audit Sub Committee note the progress made and consider and comment upon the management of risk.

SERVICE DIRECTOR: (IAN KNOWLES, CORPORATE DIRECTOR)

CONTACT OFFICER: (JOHN KILNER, RISK, AUDIT & ASSURANCE OFFICER)

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Risk Management Policy & Strategic Framework 2013

Document Control Page

Document Type	Policy	
Document Ownership	Corporate Governance	
Title of Document	Risk Management Policy and Strategic Framework	
Status	Draft	
Reference number	Pol/FN004/v0.1 draft	
Controlled by	Corporate Director	
Created/ reviewed by / date:	Risk Audit & Assurance Officer	April 2013
Agreed by / date:	Audit Sub-Committee	26/04/2013
Checked for compliance with contract standing orders and financial procedures / date:		April 2013
Agreed with Unison / date:	N/A	
Approved by / date:	Head of Performance Business Planning and Management Accounting	April 2013
Maintained by	Risk Audit & Assurance Officer	
Publication date	June 2013	
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Replaces document	RMP2013 Policy not changed since approval by Audit Sub-Committee in April 2013. Ref no, changed for version control.	

Once printed, this document is uncontrolled. Please refer to the current version on the Intranet.

Contents

1 Background

1.1 The business undertaken by YPO represents an environment within which there are substantial risks of a strategic and operational nature. Risk Management is the process by which risks are identified, evaluated and controlled and is a crucial element of good corporate governance. The Policy Statement and Strategic Framework contained within this document, provide a framework within which YPO will manage risk.

2 Risk Management Policy Statement

2.1 YPO recognises that it has a responsibility to manage risk and supports a structured approach to this by adopting, implementing and maintaining a risk management strategy. In this way YPO will better achieve its corporate objectives and enhance the value of the services it provides to its stakeholders. Good risk management will help identify and deal with the key strategic risks facing an organisation in the pursuit of its goals.

2.2 The Risk Management Policy of YPO is fully committed to the effective management of risk and adoption of best practices in the identification, evaluation, control and mitigation of risk in order to:

- Raise the awareness of the need for risk management.
- Integrate risk management into the operational and cultural development of the organisation.
- Demonstrate best practice in risk management.
- Eliminate or reduce risk to an acceptable level.
- Anticipate, plan for and respond to changing requirements.
- Prevent injury and damage and reduce the costs associated with the failure to deal effectively with risk.

2.3 By adopting this Risk Management Policy & Strategic Framework, YPO recognises risk management as a key function in helping to ensure it achieves its overall aims and objectives. Through understanding the nature of risks, YPO views risk management as an opportunity for further improvement and enhanced performance, as opposed to risk management being treated as a threat to the organisation. Performance management and financial management do not sit in isolation to risk management as they can be directly affected by strategic and operational risks; hence, it is a coordinated approach that ensures YPO achieves its aims and objectives.

3 Risk Management Strategic Framework

3.1 Risk Management forms a key element of YPO's Governance Framework, which is an integrated framework of systems and processes to effectively manage and monitor assurance on the adequacy and effectiveness of risks and controls. Identifying and managing risk is essential to effectively managing performance, as well as planning and shaping strategic planning.

3.2 The Risk Management Strategic Framework sets out the key issues to be addressed in achieving the requirements of YPO's Risk Management Policy. The main aspects covered in the framework are:

- Responsibility for Risk Management.
- Approach and Resourcing for Risk Management.
- Monitoring and Reporting Arrangements.
- Implementation of Policy and Review.

3.3 At the strategic level, YPO shall foster a commitment to a risk management philosophy by ensuring:

- The support of Members and Senior Management is secured.
- Consultative processes across the organisation are used to develop and enhance policies, procedures and guidelines.
- People are encouraged and recognised for identifying risks that are not being managed and for identifying opportunities for improvement.
- A blame culture is avoided, with Officers and Members recognising that minor errors will occur and that lessons will be learnt from them.
- Action is taken to align individual and organisational expectations for risk management.
- Open communication processes are adopted to obtain and share information, in particular to avoid reoccurrence of problems.
- Action is taken to ensure that roles and responsibilities in risk management are understood and embedded in employee work plans.
- Strategic and operational risks are identified and considered and logged in a Risk Register.

4 Responsibility for Risk Management

4.1 Responsibility for effective Risk Management rests with all employees and with the Elected Members of YPO. Members have ultimate responsibility for Risk Management because risks threaten the achievement of organisational aims and objectives, which could ultimately affect YPO's ability to deliver and sustain credible operations. Members have a responsibility for understanding the strategic risks that YPO faces and to decide how these risks should be managed.

4.2 To deliver effective Risk Management, the following roles will be performed:

Management Committee

a) To exercise leadership.
b) To consider and adopt current and future Risk Management policies and strategies aiming for continual improvement.
c) To acknowledge Risk Management as a strategic and operational tool to further YPO's objectives in line with the organisations strategy.
d) To promote the appropriate culture and attitude essential for successful implementation and robust, ongoing Risk Management processes.
e) To determine risk reporting arrangements.

Audit Sub-Committee

a) Risk Management to be a standing agenda item in line with its terms of reference.
b) To monitor and challenge the implementation of YPO's Risk Management Policy and Strategic Framework and the content of the organisations Strategic Risk Register.
c) To scrutinise, where appropriate, individual strategic risks at its meetings to assess the control mechanisms and action plans in place to manage such risks.

Directors / Board

a) To ensure YPO manages all risk effectively.
b) To identify and consider strategic risks and take ownership of the Strategic Risk Register.
c) To demonstrate effective management of risks within their individual areas of responsibility and provide assurance to Members when required.
d) To communicate and involve employees in Risk Management and in Risk Management Planning as part of the strategic planning process.
e) To receive and review quarterly reports on Risk Management.
f) To ensure that YPO's activities, policies and procedures are conducted in a manner which considers the risks associated with such actions.

Senior Management Team

a) To champion the management of risks and pro-actively work to ensure the overall Risk Management strategy is achieved.
b) To demonstrate effective management of risks within their individual areas of responsibility and report to their respective Director.
c) To identify and consider operational risks and take ownership of the Operational Risk Register for their respective area.

d) To ensure that YPO's activities, policies and procedures are conducted in a manner which considers the risks associated with such actions.

WMDC Internal Audit

WMDC Internal Audit plays an important part in YPO's arrangements for achieving effective Risk Management through:

a) Challenging and providing assurance on Risk Management processes, risk identification, evaluation, and the effectiveness of controls though a planned programme of risk based audit reviews determined within a formal risk based planning process.
b) Provide ongoing support / direction and objective challenge on the extent to which risks are being managed and the effectiveness of controls.

Corporate Division

The role of the Corporate Division is to monitor and challenge the implementation of the policy to ensure effective Risk Management is delivered as well as:

a) Provide professional support, advice and guidance across YPO on all aspects of Risk Management.
b) Ensure there is an integrated and consistent approach to the management of risks, including avoiding duplication of effort, through close working relationships with all relevant staff.
c) Encourage managers and others to manage risk effectively.
d) Produce quarterly reports to Board and report to Audit Sub-Committee as appropriate in relation to the Strategic Risk Register.

All employees

a) To manage risk effectively in their job and report opportunities / risks to their Manager.
b) To abide by policies and procedures forming YPO's Governance Arrangements.
c) To help to identify, and minimise risks within their immediate area of control or raise the issue with a line manager or others who can take action to manage the risk.

Collective Responsibility

It is the responsibility of every Member and Officer to ensure that YPO's activities, policies and procedures are conducted in a manner which considers the risks associated with such actions.

It is the responsibility of all to help to identify, and minimise risks within their immediate area of control or raise the issue with a line manager or others who can take action to manage the risk.

5 The Approach to Risk Management

5.1 YPO's approach to Risk Management requires that risks should be systematically identified and managed in the most cost-effective way using the resources available. This includes both strategic and operational risks as defined below:

Strategic Risk is defined as:

"Risks that need to be taken into account in judgements about the medium and long term goals and objectives of the Organisation"

Operational Risk is defined as:

"Risks that managers and employees will encounter in the daily course of their work"

5.2 In order to effectively identify all of the risks facing an organisation a structure for risk identification is required. A formalised risk classification system allows identification of similar risks within YPO and enables identification of who is responsible for setting strategy for the management of related or similar risks. It also allows better identification of risk appetite and total risk exposure.

5.3 YPO utilises the risk classification system known as FIRM. FIRM stands for financial, infrastructure, reputational and marketplace. The four headings of FIRM offer a classification system for the risks to the key dependencies in the organisation; it also reflects the idea that every organisation should be concerned about its finances, infrastructure, reputation and commercial success.

5.4 The FIRM system also takes into account internal risks with financial and infrastructure risks being considered as internal and reputational and marketplace risks being external to the organisation.

5.5 The FIRM headings are summarised below:

FINANCIAL - 'Risks that can impact the way in which money is managed and profitability is achieved'.

INFRASTRUCTURE – 'Risks that will impact the level of efficiency and dysfunction within the core processes'.

REPUTATIONAL – 'Risks that will impact desire of customers to deal or trade and level of customer retention'.

MARKETPLACE – 'Risks that will impact the level of customer trade or expenditure and customer retention'.

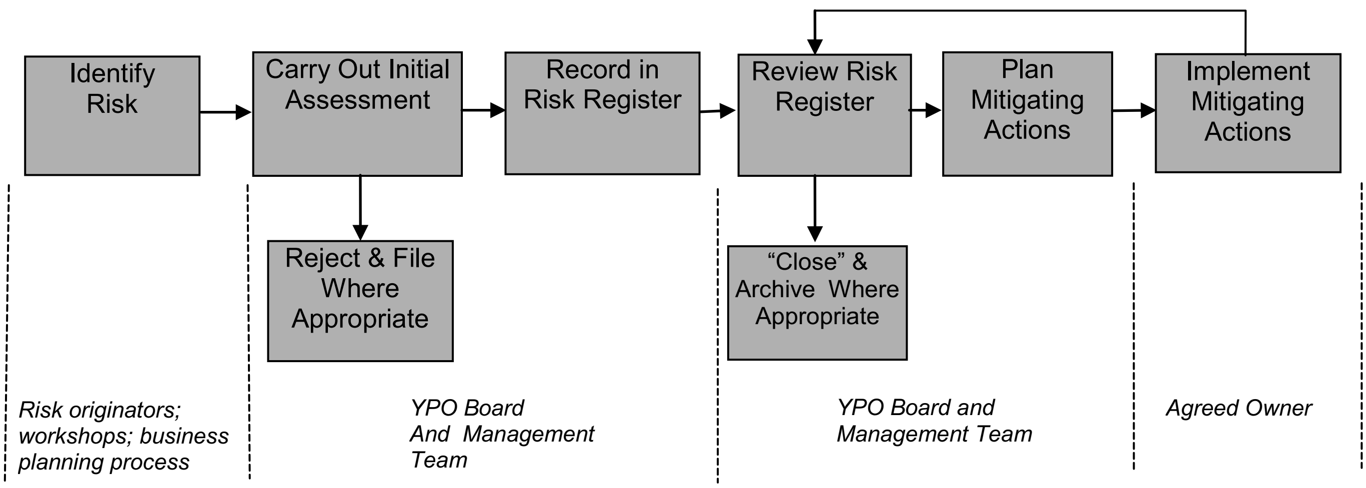
5.6 Officers carrying out risk assessment and recording risks in the organisations risk register should consider the risks associated with the categories above and record the risk alongside the risk classification in the relevant risk register.

6 The Risk Management Process

6.1 The Risk Management process is fundamental to the successful delivery of YPO's services. The process, as shown in Diagram 1, ensures that each risk identified within YPO is documented, prioritised and steps taken to ensure the mitigation of those risks. For these purposes, risks are defined as "any event that could adversely affect the ability of YPO to produce the required deliverables". Risk Management will be used by YPO, through the implementation of five main activities:

- A process of identifying risks.
- A process of recording and evaluating the risks.
- A process for agreeing risk mitigating actions.
- A process for incorporating risk mitigating actions into the business plan where they can be monitored in terms of effectiveness.
- A process of review to assess the appropriateness of maintaining a focus on risks where actions have resulted in effective control.

Diagram 1 The YPO Risk Management Process



6.2 **Identify Risk**

6.2.1 This process provides the ability for any employee to raise a risk concern. Management workshops that look specifically at risk and Management Group meetings that consider YPO's progress in meeting its objectives are important mechanisms that will identify the need to incorporate risk mitigation measures into the overall business planning process. Beyond this YPO promotes an open system where prime importance is given to getting the potential risk / observation highlighted to the relevant member of the management team.

6.3 Record and Evaluate Risk

6.3.1 Not all potential risks / observations will be actual risks within the definition of the term, yet they all will be reviewed to ensure there is a consensus regarding areas such as scope, likelihood and impact. All risks will be logged in a Risk Register maintained in YPO's Risk Management System (see template in appendix 1).

6.3.2 Evaluation of the risk will include an assessment of:

- What would be the impact if the risk happened?
- Which activities or tasks would be affected?
- When is this risk likely to occur and under what conditions?
- Are there adequate controls in place that reduce the opportunity for the risk to happen, for example do the controls help to monitor the risk and reduce its impact?

6.4 The evaluation of the risk will also include identification of any gaps that may exist in current systems or controls and if possible the root causes which could allow incidents to happen, or prevent YPO achieving its objectives.

6.5 The risks identified will then be prioritised using a 5x5 matrix, shown in Tables 1 and 2. This is a standard tool in describing the effect that risks can have should they occur.

Table 1 Levels of Impact

IMPACT		
Level	Descriptor	Description
1	Insignificant	Little significant impact on the operations of the YPO. Very low/ no financial loss.
2	Minor	Primary impact is on the internal operations of the YPO. Low financial loss.

3	Moderate	A significant impact on the operations of the YPO leading to loss of reputation & service quality. Considerable financial loss.
4	Major	Seriously damaging the YPO's ability to provide services. Major impact on the operation of the YPO. Very high financial loss.
5	Severe	Life threatening; the YPO would not survive if this happened.

The risk is then rated in terms of the probability of it happening, as described in Table 2, and will take account of both those risks that have already happened and those that are potential hazards to the Organisation.

Table 2 Probability Ratings

LIKELIHOOD		
Level	Descriptor	Description
1	Rare	May occur only in exceptional circumstances.
2	Unlikely	Not likely to occur in normal circumstances.
3	Possible	Could occur at some time.
4	Likely	Will probably occur in most circumstances.
5	Almost certain	Is expected to occur in most circumstances.

The overall risk rating is then calculated by multiplying the level of impact the risk would have if it occurred, by the likelihood of it happening, and qualified using Table 3.

Table 3 Overall Risk Rating

	Likelihood				
Impact	Rare 1	Unlikely 2	Possible 3	Likely 4	Almost Certain 5
Insignificant - 1	1	2	3	4	5
Minor – 2	2	4	6	8	10
Moderate – 3	3	6	9	12	15
Major – 4	4	8	12	16	20
Severe – 5	5	10	15	20	25

Tolerance

Mitigating Actions

Low Risk | Moderate Risk | Significant Risk | High Risk

6.6 Agreeing Mitigating Actions

6.6.1 The action planning stage looks at identifying the risk reduction strategies available to allow YPO to deal with the risks. Priority is given to those risks within the significant or high areas of mitigating actions. Those risks with an aggregated score of 8 or more means that the risk falls into the 'Significant' or 'High' risk category, and as the term implies, requires proactive management.

6.6.2 Other risks fall within the area of tolerance and are classed as acceptable risks. These will be monitored and may be subject to risk reduction strategies but action may not be appropriate on the grounds of cost/benefit.

6.6.3 In general terms the action taken by YPO to deal with a risk will fall into one of the following categories;

- Accept it – where the risk is regarded as one that YPO can legitimately bear and is often merely part of doing business. This decision will be taken by the appropriate Manager in consultation with their team.

- Manage it – where the risk is unacceptable but can be managed within tolerances by control procedures established to reduce the risk to acceptable levels. This might be done by conventional insurance, or by paying a third party to take the risk in another way. This decision will be taken by the appropriate Manager in consultation with their team. Action will be reported to, and monitored by the management team.

- Modify it – changing the way YPO carries out its business with a view to reducing the risk. This decision is taken by the appropriate Manager, in consultation with their team, and mitigating action reported to the management team.

- Eliminate it – where the risk is unacceptable and YPO does not believe it can, or wants, to manage it down to an acceptable level. Recommendations are made by the appropriate Manager, in consultation with their team, to the management team for approval.

- Implement a recovery plan – where a disaster scenario exists and it may not be possible to adequately reduce the risk, a Business Continuity Plan (BCP) is needed to recover the situation as soon as possible. Business Continuity Management provides contingency arrangements and a plan for recovery from disruptive events and is linked to Risk Management. Business Continuity Planning will involve Business Impact Analysis and the development of Recovery Plans. BCP's will be tested and revised as necessary. Recommendations will be made by the appropriate Manager in consultation with their team and the management team, and if necessary, the Management Committee for approval.

6.7 Implementing and Reviewing Mitigating Actions

6.7.1 This stage of the process involves the implementation of all assigned actions as part of an integrated business improvement programme. In this way, mitigating actions will be tied into the YPO business plan so that the Organisation:

- Understands the impact that actions will have on the overall plan.

- Can closely monitor progress.

- Can communicate any changes to policy, procedures or practices in a timely manner to effectively minimise specific risks.

7 Resourcing

7.1 All members of staff are responsible for considering risk implications within all their actions associated with YPO. Risk training is provided to those members of staff with direct responsibility for strategic and operational risks, and the implementation of this policy and framework.

7.2 YPO Senior Management will provide the necessary staffing resources for the effective implementation of this policy and associated processes and will promote a culture to ensure Risk Management is fully embedded within the Organisation.

8 Monitoring and Reporting Arrangements

8.1 Overall responsibility for monitoring adherence to YPO's Risk Management Policy rests with the Corporate Director, Ian Knowles.

8.2 Ongoing monitoring and reporting of the Strategic Risk Register will be provided to the Audit Sub-Committee to gain assurances that risks are being effectively managed. Reporting of any risks which the YPO Board of Directors believes to be sufficiently important or catastrophic in nature that Management Committee Members need to be aware of will be done so under the existing emergency reporting procedures.

8.3 Operational and Strategic Risk Registers are subject to quarterly review by Board and SMT, these will show a clear link to strategic and operational objectives. Business cases and business plans should be supported by their own risk register.

8.4 Internal Audit progress reports are presented to Board and Audit Sub-Committee at least annually highlighting assurances given on all levels of risk management including any specific problem areas.

9 Implementation and Policy Review

9.1 Once approved by the Management Committee this Policy and Strategic Framework will be published within YPO and used as the basis from which to embed risk management within the Organisation. The Policy will be reviewed annually with any significant changes highlighted to the Management Committee for approval.

Activity Risk Assessment

Assessment Reference		**Activity Description**	
Assessment Date		**Approved For Portal**	
Assessor Name		**Description**	
Assessment Team Members		**Review Date**	
Project Risk Assessment		**Overall Potential Risk Factor**	0
Area		**Overall Residual Risk Factor**	0
Company		**Cost Of Control Measures**	£0.00
Department		**Number Of People Exposed**	0
Section		**People Exposed**	
Location		**Is This An Acceptable Risk?**	

Category & Hazard	Persons At Risk & How	Existing Control Measures	Likelihood	Impact	Risk Level	Additional Control Measures	Likelihood	Impact	Risk Level

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	YPO AUDIT SUB COMMITTEE TO BE HELD ON 18TH OCTOBER 2013

TITLE: 2013 YEAREND CLOSEDOWN TIMETABLE AND AUDIT PLAN

REPORT OF: FINANCIAL ACCOUNTANT

---

1. PURPOSE OF REPORT

1.1. To make Audit Sub Committee aware of the contents of the 2013 closedown timetable, contents of the audit fee letter and audit plan.

2. BACKGROUND INFORMATION

2.1 The KPMG report to those charged with governance issued in April 2013 stated "Management have provided high quality draft accounts for audit. The improvement in the accuracy and completeness of accounting policies and disclosures noted in the Audit Commission's 2011 Annual Governance Report has continued in 2012. The accounts were supported by good quality working papers addressing the requirements set out in our Prepared by Client list. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales".

2.2 Key points to note are that:-

- The Organisation has again set a challenging 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 an additional meeting of the Audit Sub Committee post the March Management Committee meeting.

2.3 Appendix 1 sets out the timetable for the closure and production of the 2013 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.

2.5 The annual audit fee letter and outline audit plan submitted by KPMG and agreed by YPO senior management are attached as appendix 3 and 4 for members information.

3. STRATEGIC IMPLICATIONS

3.1. None.

4. FINANCIAL IMPLICATIONS

4.1. None.

5. LEGAL IMPLICATIONS

5.1. None.

6. EQUALITY IMPLICATIONS

6.1. None.

7. RISK IMPLICATIONS

7.1. None.

8. RECOMMENDATION

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

CONTACT DETAILS:

SERVICE DIRECTOR: Ian Knowles, Corporate Director

CONTACT OFFICER: Ian Forbes, Interim Accountant
Telephone No: 01924 834950
E-mail address: ian.forbes@ypo.co.uk

APPENDIX (CES):

Appendix 1 – 2013 Closedown timetable and Audit plan key dates

Task	Deadline	Responsible
Close down of 2013 yearend	20/12/2013	YPO
Issue of advert for public inspection period	06/01/2014	YPO / WMDC
Completion of 2013 Annual Governance Statement	08/01/2014	YPO / WMDC
Completion of Annual Report	10/01/2014	YPO
Receipt of pensions and building valuation data	16/01/2014	YPO
Pre audit statement agreed with s151 officer	22/01/2014	YPO / WMDC
Issue of KPMG opinion plan	27/01/2014	KPMG
Pre audit statement approval with Audit sub Committee	07/02/2014	KPMG
Production of KPMG working File	11/02/2014	YPO
Beginning of public inspection period	03/02/2014	KPMG / YPO
Audit Commences	11/02/2014	KPMG / YPO
Audit finishes	25/02/2014	KPMG/YPO
Closure of public inspection period	28/02/2014	KPMG / YPO
Audited statement agreed with s151 officer	07/03/2014	YPO / WMDC
Letter of representation, Audit Opinion, AGR and VFM conclusion	12/03/2014	KPMG
Approval of the statement of accounts	21/03/2014	Additional Audit Sub Committee

Appendix 2 – Resource implications

<u>YPO</u>

Full resource of the Interim Accountant and Reporting Accountant is required with support from the Financial Accountant and Head of Performance, Business Planning and Management Accounts during the production and completion of the 2013 statement and audit period Jan – March 2014.

<u>WMDC</u>

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.

<u>KPMG</u>

Will require sufficient resource to complete the audit within the required timescale.

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Simon Hill
Managing Director
YPO
41 Industrial Park
Wakefield
West Yorkshire
WF2 0XE

Our ref 2013/1

22 April 2013

Dear Simon

Annual audit fee 2013

I am writing to confirm the audit work and fee that we propose for the 2013 financial year at YPO. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice, and work mandated by the Audit Commission.

As we have only just completed our audit for 2012, our audit planning for 2013 including our risk assessment will continue through the year. If necessary we will review our fees and update them. We will keep you informed of our progress in planning 2013, and will issue a detailed audit plan later in the year.

The proposed indicative audit fee for 2013 is £28,318. All fees are subject to VAT.

The audit fee is unchanged from the planned fee for 2012 and is in line with the scale fee recommended by the Audit Commission.

The indicative fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified for the 2012 audit. We will issue our more detailed audit plan later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Corporate Director and then prepare a report for the Audit Sub-Committee, outlining the reasons why the fee needs to change.

KPMG

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of YPO. We will discuss any such piece of work with you and agree a detailed project specification with you.

The key members of our audit team for the 2013 audit are:

Name	**Role**	**Contact details**
Alastair Newall	Manager	alastair.newall@kpmg.co.uk 0113 231 3552
Lizzie Wharton	Assistant Manager	elizabeth.wharton@kpmg.co.uk 0113 231 3538

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *'Something to Complain About'*, which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

S R Clark

Stephen Clark
Director

cc: Ian Knowles, Corporate Director
Judith Badger, Director of Finance, Wakefield MDC

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit's work is of sufficient quality and scope so that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2013 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

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

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Corporate Governance & Audit Committee.

Planned output	Indicative date
External audit plan	August 2013
Interim audit report	December 2013
Report to those charged with governance (ISA260 report)	March 2014
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	April 2014
Annual audit letter	June 2014

KPMG

cutting through complexity™

External Audit Plan 2013

Yorkshire Purchasing Organisation

October 2013

Contents

The contacts at KPMG in connection with this report are:

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Lizzie Wharton
Manager
KPMG LLP (UK)

Tel: 0113 231 3538
elizabeth.wharton@kpmg.co.uk

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 has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Steve Clark, the appointed engagement lead to the Organisation, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one
Introduction

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*.

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.

Scope of this report

This document describes how we will deliver our financial statements audit work for the Yorkshire Purchasing Organisation. The *External Audit Plan* supplements our *Audit Fee Letter 2013* sent to the Managing Director in April 2013.

We also set out our approach to value for money (VFM) work for 2013.

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 report

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.

Section two

Headlines

We have identified a number of key risks that we will focus on during the audit of the 2013 financial statements.

These are described in more detail on page 9.

The remainder of this document provides information on our:

- **Approach to the audit of the financial statements;**
- **Approach to VFM work; and**
- **Audit team, proposed deliverables, timescales and fees for our work.**

Area	Risk	Audit work
Direct supply cut-off	The 2012 financial statements omitted income and expenditure relating to direct supply items where the invoice had been received but not processed at 31 December 2012. YPO should have arrangements in place to account for this income and expenditure correctly in 2013.	We will hold early discussions with officers to understand the plans in place to address this issue in 2013. During our year end accounts visit, we will carry out detailed testing of the evidence provided by officers to support the accounting treatment adopted.
YPO Structure	We understand from discussions with officers that YPO is considering options for the structure of the Organisation and for delivery of its services including the establishment of a limited company.	We will consider the impact of any changes on our VFM conclusion and whether any disclosure is required in the financial statements

Section three

Our audit approach

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

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

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

	Stage	Activity	Nov	Dec	Jan	Feb	Mar	Apr
1	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*.	○					
2	Control evaluation	Evaluate and test selected controls over key financial systems.	○					
		Review the internal audit function.	○					
		Review the accounts production process.	○	○				
		Review progress on critical accounting matters.	○	○				
3	Substantive procedures	Plan and perform substantive audit procedures.				○		
		Conclude on critical accounting matters.				○		
		Identify audit adjustments.				○		
		Review the Annual Governance Statement.				○		
4	Completion	Declare our independence and objectivity.						○
		Obtain management representations.						○
		Report matters of governance interest.				○		○
		Form our audit opinion.						○

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Section three

Our audit approach - planning

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 2013. 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 Corporate Director, the Head of Performance, Business Planning and Management Accounting, and the Financial Accountant 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 Partner 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.

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.

Our audit approach – control evaluation

During November and December we complete our interim work.

We assess if controls over key financial systems were effective during 2013. 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 in February.

Our interim visit on site will be completed during November and December 2013. 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 2013 with the Head of Internal Audit and Internal Audit Manager for the Organisation.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the Organisation's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised a number of recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2012* relating to the accounts production process. These were to:

- Include an accrual for the direct supply income and expenditure relating to supplier invoices received but not processed in the 2013 accounts; and
- Produce a formal documented policy for calculating the allowance for bad debts.

We will assess the Organisation's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

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 on in February 2014.

Our audit approach – substantive procedures

During February 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 March or April, depending on the progress of the audit.

Our on site visit to audit the draft financial statements will start on 10 February 2013. 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 Partner 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*.

Our audit approach - other

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.

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 Corporate Director, the Head of Performance, Business Planning and Management Accounting, and the Financial Accountant and the Audit Sub Committee. Our deliverables are included on page 9.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this ‘off-shore’ team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

KPMG

Our audit approach - other

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.

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 October 2013 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.

Section four

Key financial statements audit risks

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*.

Key audit risks	Impact on audit
Direct supply **Audit areas affected** ▪ Invoiced turnover ▪ Cost of sales ▪ Debtors and creditors	**Risk** The 2012 financial statements omitted income and expenditure relating to direct supply items where the invoice had been received but not processed at 31 December 2012. This meant that turnover was understated by £825k and the surplus for the year by £113k. This is a growing area of the business and there is a risk that the 2013 financial statements may be materially misstated if the same treatment is adopted in 2013. YPO should have arrangements in place to account for this income and expenditure correctly in 2013. **Our audit work** We will hold early discussions with officers (during our planning work and interim visit) to understand the plans in place to address this issue in 2013. This will allow us to highlight any concerns or risks before the accounts closedown period. During our year end accounts visit, we will carry out detailed testing of the evidence provided by officers to support the accounting treatment adopted.
Changes to structure **Audit areas affected** ▪ Disclosures	**Risk** We understand from discussions with officers that YPO is considering options for the structure of the Organisation and for delivery of its services including the establishment of a limited company. **Our audit work** We will hold discussions with officers at all stages of the audit to understand progress and the timing of any changes. We will consider the impact of these changes on the disclosures in the financial statements.

Section five

VFM audit approach

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 2013 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 am not aware of any relevant work of other regulatory bodies or inspectorates.

We have identified one risk which may require specific risk-based work depending on how advanced plans are at the year end. This is set out in the table below.

Otherwise 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) 2012*;
- any changes to your arrangements in 2013.

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

Key audit risks	Impact on audit
Changes to structure	**Risk** We understand from discussions with officers that YPO is considering options for the structure of the Organisation and for delivery of its services, including the establishment of a limited company. **Our audit work** We will hold discussions with officers at all stages of the audit to understand progress and the timing of any changes. We will consider the impact of the governance and decision-making processes around these changes on our VFM Conclusion.

Audit team

Our audit team were all part of YPO audit last year. Contact details are shown on page 1.

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

Steve Clark

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."

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. I will be the main point of contact for the Corporate Director and Head of Internal Audit]."

Section five

Audit deliverables

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 agreed each report with the Organisation's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
Financial Statements Audit Plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures.	**October 2013**
Control evaluation		
Interim Report (if required)	■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit.	**February 2014**
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Organisation's value for money arrangements.	**March/April 2014**
Completion		
Auditor's report	■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	**March/April 2014**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**June 2014**

Section five

Audit timeline

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

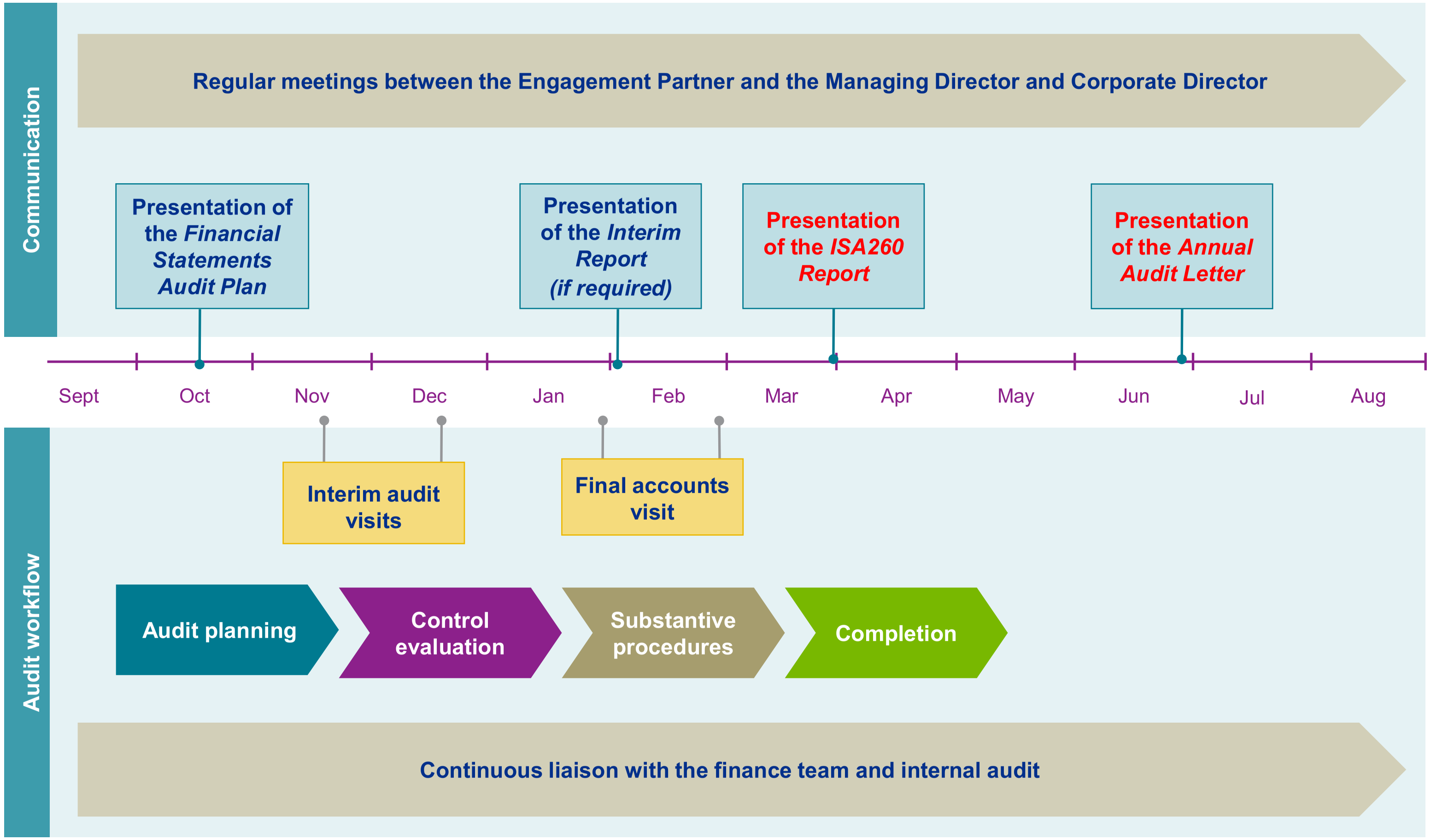
Key formal interactions with the Management Committee and Audit Sub Committee are:

- **October – Financial Statements Audit Plan;**
- **February – Interim Report (if required);**
- **March/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.**
- **Final accounts audit during February and March.**



Key: ● Management Committee and Audit Sub Committee meetings.

Audit fee

The main fee for 2013 audit of the Organisation is £28,318. This is that fee that is set out in our *Audit Fee Letter 2013* sent to the Managing Director in April 2013.

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 2013* sent to the Managing Director in April 2013 first set out our fees for the 2013 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2013 (planned)	2012 (actual)
Gross audit fee	£28,318	£30,469
Total	**£28,318**	**£30,469**

The fee for 2013 audit is £28,318, which includes our work on the VFM conclusion and our audit of the Organisation's financial statements. This is the fee as set by the Audit Commission.

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 2012;
- 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 Corporate Director.

Appendices

Appendix 1: Balance of internal controls and substantive testing

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

Emphasis of testing

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing; Reduced substantive testing	Low value transactions High volume Homogenous transactions Little judgement	Income and debtors Purchases and payables Payroll
Moderate controls testing; Moderate substantive testing	Low/medium value High/medium volume Some areas requiring judgement	Valuation of fixed assets
Limited controls testing; Extensive substantive testing	High value/ low volume Unusual non-recurring Accounting estimates Significant judgements	Investments and borrowings Provisions

Appendix 2: Independence and objectivity requirements

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.

Appendix 3: KPMG Audit Quality Framework

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. Steve Clark 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 the Authority'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.

Appendix 3: KPMG Audit Quality Framework

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 National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx) . The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.

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