

Your Ref
Our Ref

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Date 17 April 2013

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

Dear Member

YPO AUDIT SUB-COMMITTEE – FRIDAY, 26 APRIL 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 **9:30 am on Friday, 26 April 2013 in the YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda attached.

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, 26 April 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 8 February 2013. (Pages 1 - 4)
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. Review Work Programme and Terms of Reference. (Pages 5 - 10)
7. Financial Statement 2012 and Annual Governance Statement. (Pages 11 - 86)
8. Internal Audit Progress. (Pages 87 - 92)
9. Risk Management Update. (Pages 93 - 110)
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 13 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972 as amended"
- IN PRIVATE**
11. Risk Register. (Pages 111 - 134)
12. Internal Audit Action Update. (Pages 135 - 140)
13. Compliance with Legislation Update. (Pages 141 - 142)
14. Date and Time of Next Meeting.
The date and time of the next meeting is to be determined at the YPO Annual Meeting on 28 June 2013 but a provisional date has been set for 19 July 2013.

YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE**Friday, 8 February 2013**

Present: The Chair (Councillor Shaw – Wakefield MDC)
Councillors Barnard (Barnsley MBC), Smith (Calderdale MBC)
and Shaw (North Yorkshire CC)

25. CHAIR'S INTRODUCTION AND WELCOME

The Chair welcomed everyone to the meeting then gave the sad news that Councillor Ken Keith from Knowsley MBC had recently passed away. A minutes silence in his memory was expressed by the Sub-Committee.

The Chair highlighted to Members that an email regarding audit training had been circulated by YPO which required completion by 1 March 2013. A plan would then be developed which identified Members training requirements.

It was explained to Members that Agenda Item 15 had mistakenly been placed in the private section of the agenda rather than public.

Resolved – That Agenda Item 15 be heard in public.

26. APOLOGIES FOR ABSENCE

Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Sherrington (Bolton MB) and Coddington (Doncaster MBC).

27. MINUTES - 19 OCTOBER 2012

Resolved – That the Minutes of the meeting of the YPO Audit Sub-Committee held on 19 October 2012 be approved as a correct record.

28. MEMBERS' DECLARATION OF INTEREST

No declarations of interest were made.

29. EXTERNAL AUDIT PLAN 2012

Consideration was given to a report detailing the 2012 external audit plan produced by KPMG. Attached as a supplementary, was the external audit plan for the 2012 statement of accounts and annual governance report.

The report presented to Members had been previously considered by Management Committee due to the transfer of the audit from the Audit Commission to KPMG and it not being possible to produce in time for the October meeting of Audit Sub-Committee.

Members were informed that the Audit Commission were currently looking into the audit fee for last year. Any revision to the fee would be communicated to Members.

Resolved – That the report be noted.

30. PRE-AUDIT STATEMENT OF ACCOUNTS

The Corporate Director presented the 2012 Pre Audit Statement of Accounts (attached as Appendix 1) and the public notice required for the commencement of the audit and public inspection period (attached as Appendix 2).

A discussion took place regarding the information presented and during which time Members were informed that a full vehicle fleet review was currently being undertaken.

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FEBRUARY 2013**

Resolved – (1) That completion of the Pre Audit Statement for 2012 and its contents be noted and approved.

(2) That the required public notice and commencement of the audit and public inspection period be noted.

31. ANNUAL GOVERNANCE STATEMENT

Consideration was given to a report which detailed the Annual Governance Statement for 2012 and the Code of Corporate Governance 2013. The Corporate Director highlighted the enhancements made from the 2011 Annual Governance Statement.

Resolved – That the Annual Governance Statement 2012 and the Code of Corporate Governance 2013 be approved.

32. INTERNAL AUDIT AND ANNUAL REPORT 2012

A report of the s151 Officer presented the draft Annual Audit Report for 2012, in line with the requirements and also detailed the Internal Audit Progress report which covered work completed in the final quarter of 2012.

Members were also requested to consider an Internal Audit Opinion, extracted from the YPO Annual Governance Statement (AGS) 2012, which explained that key internal controls were found to be adequate to manage associated risks to an acceptable level, with no significant errors, losses or omissions identified. Senior management within the Organisation continued to strengthen the overall governance framework, including residual areas previously identified from audit work as requiring improvement. Significant progress had been made in updating a number of key policies and procedures, although it was an ongoing process. Consequently, there were no new key control improvements which required inclusion in Section 5 of the 2012 AGS based on the outcomes of Internal Audit work.

The Audit Manager highlighted some matters requiring action following audit work undertaken, as well as acknowledging a number of positive outcomes including the audit of the main financial systems.

Resolved – (1) That the Annual Audit report, as detailed in Appendix A, be recommended to the Management Committee for formal acceptance.

(2) That the Internal Audit Progress report, as detailed in Appendix B, be endorsed.

33. DRAFT 2013 INTERNAL AUDIT PLAN

Consideration was given to a report of the s151 Officer which provided details of the draft 2013 YPO Internal Audit Plan. Members were asked to consider the report prior to it being submitted to Management Committee for formal approval. The Audit Manager stated that the plan had been discussed and agreed with the YPO Board of Directors. It was also explained that the number of days had been reduced from 200 to 180 which reflected the significant improvements made.

Resolved – That the draft Annual Audit Plan for 2013 be noted and submitted to a future meeting of Management Committee.

34. RISK MANAGEMENT UPDATE

A report of the Risk Audit and Assurance Officer provided Members with assurances

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FEBRUARY 2013**

that work was progressing in managing and reviewing strategic and operational risk.

Resolved – That the progress made be noted.

35. EXCLUSION OF THE PUBLIC AND PRESS

Resolved – That the public and press be excluded from the meeting during consideration of Agenda Items 12 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

36. RISK REGISTER

Members gave consideration to a report of the Risk Audit and Assurance Officer which detailed the Strategic Risk Register for YPO along with details of the amendments made to the operational and strategic risk registers in the fourth quarter of 2012. It was explained that reviews of the YPO risk register were regularly reported to the Board of Directors and the Audit Sub-Committee.

During a discussion on the register, it was acknowledged that four of the strategic red risks had been on the register for awhile but it was hoped that improvements would be made.

Resolved – (1) That the YPO Strategic Risk Register be noted.

(2) That the amendments made to the Operational Risk Registers be noted.

37. INTERNAL AUDIT ACTION UPDATE

Consideration was given to a report of the Risk Audit and Assurance Officer updating Members on 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.

Following a question regarding achievement of the timescales highlighted in Appendix 3, the Corporate Director was optimistic that they could be achieved and that a report would be submitted to the April meeting.

Resolved – That the progress made in implementing the internal audit actions be noted.

38. COMPLIANCE WITH LEGISLATION

A report of the Corporate Director updated Members on the progress made regarding compliance with legislation.

In April 2012, Members received a report detailing the nature and range of legislation which YPO needed to comply with. A summary of the areas covered was provided in Appendix 1 to the report. Members were further informed that YPO were currently working with Walker Morris and the Monitoring Office, Wakefield MDC to assess the need for specific in-house legal support. It was expected that the assessment would be finalised by June 2013.

The Corporate Director explained that there were two areas of identified risk; Product Safety and Food Distribution.

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Following a discussion, the Chair requested an update report for the next meeting on the progress made towards the two identified risks.

Resolved – (1) That the current position regarding compliance with legislation be noted.

(2) That an update report be provided for the next Audit Sub-Committee meeting on the progress made towards the two identified risks.

39. DATE AND TIME OF NEXT MEETING

Resolved – That the next meeting of the YPO Audit Sub-Committee be held on 26 April 2013 at 10.00am.



YPO
AUDIT SUB COMMITTEE
TO BE HELD ON
26TH APRIL 2013

TITLE: REVIEW WORK PROGRAMME AND TERMS OF REFERENCE

REPORT OF: CORPORATE DIRECTOR

1. PURPOSE OF REPORT

1.1 To provide members with an overview of work undertaken by the committee since the 2012 AGM and propose terms of reference and work programme for presentation to the 2013 AGM.

2. RECOMMENDATION

2.1 Members are asked to agree this report for submission to the AGM in the name of the Chair of the Audit Sub Committee.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4. LEGAL IMPLICATIONS

4.1 There are no risks arising from this report.

5. BACKGROUND INFORMATION

5.1 The Audit Sub Committee has a membership of nine members drawn from the Management Committee and met four times during the year. Its primary purpose is to undertake the duties of 'those charged with governance' under delegation from the Management Committee. The Audit Sub Committee has delegated powers to sign off the annual financial statements and annual governance report on behalf of the Management Committee and ensure it has sufficient information and knowledge to undertake those duties.

5.2 Since the last AGM the Audit Sub Committee has considered reports covering Internal Audit activity (including management's response), Risk Management, Year-end closedown timetable, Annual Financial Statement, Annual Governance Statement, External Audit reports, Contract Standing Orders and Finance regulations and updates on the Quality Management System and the Legal Review.

5.3 The Sub Committee has considered 68% of reports in public.

5.4 Members have also been asked to provide a return on knowledge and skill needs to provide a training programme for the next twelve months.

5.5 TERMS OF REFERENCE

5.6 The terms of reference have been reviewed and are attached for members' consideration. There are no changes recommended at this time.

5.7 WORK PROGRAMME

5.8 The focus of the work programme for the Audit Sub Committee will be similar to previous years and be aimed at providing the Audit Sub Committee sufficient information to undertake the role of 'those charged with governance'.

5.9 The proposed meeting dates are attached.

5.10 Therefore the proposed workplan following the AGM in June 2013 will be as shown below.

July 2013	October 2013	February 2014	April 2014
Internal Audit Progress	Internal Audit Progress	Internal Audit Progress	Internal Audit Progress
Risk Management Process	Internal Audit Plan 2014	Annual Governance Statement	External Audit Report
Risk Register	Risk Register	Pre-Audit Statement of Accounts	Audited Statement of Accounts
Training Programme	Year End Closedown timetable	Risk Register	Risk Register
		Internal Audit Report 2013	Work Programme for 2014/15

SERVICE DIRECTOR: IAN KNOWLES, CORPORATE DIRECTOR

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APPENDIX:

Appendix 1 - Audit Sub Committee Terms of Reference
 Appendix 2 - Provisional Committee Dates 2013-14

Yorkshire Purchasing Organisation

AUDIT SUB – COMMITTEE – DRAFT TERMS OF REFERENCE 2013

Number of Members

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

Not more than one Councillor from any member authority.

Co-opted member

One non-voting co-opted member selected by the Management Committee, following a recommendation by the Audit Sub-Committee.

Frequency of Meetings

Three times per annum, to be scheduled approximately one month prior to Management Committee meetings.

Quorum

Three voting members.

Substitutes

Allowed.

Remit

1. To ensure that the highest standards of probity and public accountability are demonstrated and in doing so ensure effective governance of YPO.
2. To provide the Management Committee with a reasonable assurance of the efficient and effective operation of the overall internal control environment within the YPO, through a systematic appraisal of its overall control framework.
3. To consider internal audit plans and performance to ensure the work of internal audit is planned and carried out with due regard to major risks, areas of significant financial effect and the need to cover the range of the service, and to challenge and review actions taken by senior managers on significant audit recommendations.
4. To consider the external audit work programme and monitor the implementation of significant external audit recommendations.
5. To ensure that an appropriate risk management strategy has been drawn up and to monitor that risk management procedures are being carried out effectively.
6. To review annually its terms of reference and report any additions and amendments to the Management Committee.

7. To submit to each Annual Meeting of the Management Committee a report of its activities during the previous year.

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

1. To approve the annual governance statement to the Management Committee for inclusion in the annual statement of accounts, and review the implementation of any audit recommendations arising from the final accounts audit.
2. To approve the acceptance of the annual statement of accounts.

DRAFT

YPO MANAGEMENT COMMITTEE AND SUB COMMITTEE MEETINGS 2013/14

Date of Meeting	Strategic Officers	Management Committee	Exec Sub	Audit Sub	Scrutiny Sub	JCC
JULY 2013						
12	10:00	Strategic Officers				
19	09:30			Audit Sub		
26	09:30		Exec Sub			
SEPTEMBER 2013						
13	09.30				Scrutiny Sub	
OCTOBER 2013						
11	10:00	Strategic Officers				
18	09:30			Audit Sub		
NOVEMBER 2013						
1	09:30		Exec Sub			
15	10:00	Strategic Officers				
29	09:30					JCC
29	10:30		Management Committee			
FEBRUARY 2014						
7	09:30			Audit Sub		
7	14:00	Strategic Officers				
14	09.30				Scrutiny Sub	
28	09:30		Exec Sub			
MARCH 2014						
21	09:30					JCC
21	10:30		Management Committee			
APRIL 2014						
4	10:00	Strategic Officers				
11	09:30			Audit Sub		
11	14:00		Exec Sub			
MAY 2014						
2	09:30				Scrutiny Sub	
JUNE 2014						
13	10:00	Strategic Officers				
27	09:30					JCC
27	10:30		Management Committee			



YPO
AUDIT SUB COMMITTEE
TO BE HELD ON
26TH APRIL 2013

TITLE: THE AUDITED STATEMENT OF ACCOUNTS 2012 AND ANNUAL GOVERNANCE REPORT

REPORT OF: THE CORPORATE DIRECTOR

1. PURPOSE OF REPORT

1.1 To present to Members' the 2012 audited statement of accounts at appendix 1, the KPMG report to those charged with governance (ISA260) at appendix 2 and the letter of representation to KPMG at appendix 3.

2. BACKGROUND INFORMATION

2.1 The 2012 statement has been prepared under International Financial Reporting Standards (IFRS). This has been achieved within a reduced timescale from previous statements and with a reduced number of reported errors from previous periods.

2.2 The 2012 pre audit statement of accounts was accepted in the March 2013 audit committee meeting and powers were delegated to the Audit Sub Committee to approve the final audited statement.

2.3 The final audited statement is included as Appendix 1 to this report.

2.4 Property valuations were received from NPS Ltd on 4 January 2013 and are incorporated in this statement.

2.5 Data for the completion of the IAS19 notes and adjustments on pension accounting were received from the actuaries (AON Hewitt) on 18 January 2013, and are incorporated in this statement.

2.6 Changes from the Pre Audit Statement are included in the KPMG Report to those charged with governance (ISA260) 2012 report at appendix 2.

2.7 No changes to the accounts from the pre audit statement have given rise to any change in the available distributable reserve.

2.8 The section 151 officer has been made aware of and consulted on all changes made to the statement and has made the following observations:

- Once again YPO has met a very challenging deadline, which has been achieved without any detriment to quality or accuracy.

- Although there are still some areas for further improvement, the quality and standard of the accounts has continued to be enhanced. This is a credit to the efforts of both YPO and Wakefield staff who continue to work together to ensure a favourable outcome.

The Corporate Director is in agreement with the above comments.

3. STRATEGIC IMPLICATIONS

3.1 None.

4. FINANCIAL IMPLICATIONS

4.1 As demonstrated in the report.

5. LEGAL IMPLICATIONS

5.1 None.

6. EQUALITY IMPLICATIONS

6.1 None.

7. RISK IMPLICATIONS

6.1 None.

8. RECOMMENDATION (S)

8.1 Members note the completion of the audited statement of accounts for 2012 and note the contents and response contained in the report to those charged with governance at appendix 2.

8.2 Members note the KPMG “issues and recommendations” and “Management response” contained in appendix 1 of the report to those charged with governance (ISA260) 2012.

8.3 Members approve the 2012 Audited statement of Accounts at appendix 1.

8.4 Members agree the Letter of Representation at appendix 3.

SERVICE DIRECTOR: (IAN KNOWLES, CORPORATE DIRECTOR)

CONTACT OFFICER: (RON TAYLOR, FINANCIAL ACCOUNTANT)

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**AUDITED
STATEMENT
OF ACCOUNTS
2012**

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AUDITORS REPORT

This page will contain the auditors report in the audited statement

AUDITORS REPORT

Foreword and Financial Summary by the Corporate Director

1. INTRODUCTION

This document is the Statement of Accounts for the Yorkshire Purchasing Organisation. The Statement of Accounts shows the Organisation's financial performance for the year ended 31 December 2012. The foreword and financial summary provides a guide to the most significant matters in the financial statements.

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

There are currently 13 founder member authorities and 24 associate member authorities of YPO, although the Organisation trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

Founder Member Authorities

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

Associate Member Authorities

first year of membership

Bury MBC	2011
Leeds City Council	2011
Durham CC	2011
Sheffield City Council	2011
Cumbria CC	2011
North Lincolnshire Council	2011
North East Lincolnshire Council	2011
South Yorkshire Police Authority	2012
West Yorkshire Police Authority	2012
South Yorkshire Fire and Civil Defence Authority	2012
West Yorkshire Fire and Civil Defence Authority	2012
Stockport MBC	2012
Cheshire East Council	2012
Rochdale MBC	2012
Trafford Council	2012
Warrington Borough Council	2012
East Riding of Yorkshire Council	2012
Hull City Council	2012
Blackpool Borough Council	2013
Manchester City Council	2013
Staffordshire CC	2013
Malvern Hills DC	2013
Wyre Forest DC	2013
Wiltshire Fire and Rescue Service	2013

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

Associate membership allows for attendance at all committee meetings held in public but does not carry voting rights.

Foreword and Financial Summary by the Corporate Director

2. ACCOUNTABILITY AND FINANCIAL REPORTING

Local Authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the Organisation is required to produce a set of accounts in order to inform stakeholders that it has properly accounted for all public money it has received and spent and that its financial standing is on a secure footing.

3. THE CORE FINANCIAL STATEMENTS

The financial activity of the Organisation in relation to the service it provides is shown through a number of key financial statements and notes:

Core Statements

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

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

The Balance Sheet shows the value as at the 31st of December 2012 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

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

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the organisation and the Director of Finance and Property (WMDC) for the Statement of Accounts.

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

4. FINANCIAL SUMMARY

The 2012 budget approved in December 2011 was for a turnover of £106.4m and a surplus of £7.2m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

Sales for the year are £128.4m and the reported surplus on trading of £10.5m compares favourably with the revised target of £7.2m excluding any income for pensions interest or expenditure financed from earmarked reserves.

Invoiced turnover in 2012 was £128.4m, an increase of £19.9m (or 18.3%) compared with 2011 and in excess of the budget of £106.4m. Income from stock and framework contracts at £4.5m were below the budget of £5.0m largely due to the timing of take up on framework contracts. Sales in the year include £12m in respect of supporting the DFE in delivering the Phonics initiative into primary schools. This initiative is not expected to run beyond October 2013.

Trade debtors at £15.1m are higher than anticipated and include £2.1m in respect of match funding on the phonics project and as a result of the current economic climate. Debt owed by customers is similar to the closing position in 2012 which is a major achievement against a backdrop of an increase in sales of £20.0m.

The continued conversion to academy status within the core customer base has led to the Organisation substantially increasing its provision for bad debt in relation to debts prior to conversion to £0.232m.

During the year capital expenditure consisted of telephony equipment at a cost of £11k.

Operating costs for 2012 include £165k (£187k in 2011) for costs of consultancy work completed in year supporting the development of a comprehensive ICT strategy for the Organisation.

Foreword and Financial Summary by the Corporate Director

An agreed dividend distribution of £7.1m for the trading year 2011 was distributed in September 2012. This distribution as last year included all customers.

No acquisitions or discontinuation of operations were made during 2012.

5. RETIREMENT BENEFITS

The value of the organisation's retirement benefits liability as at 31 December 2012 was £23.4 million (31 December 2011 £15.8 million) this increase in liability is attributable to the change in assumptions as detailed in note 7. The actuaries advised that 2011 net pensions liability for funded pensions had increased by £0.62m, as a result of estimates being corrected as a result of experience the liability has increased by £6.6m as a result of updating the assumptions. The employer's contribution rate was 13.6% to April 2012 and then 12.9% for the remainder of the year (see note 7 to Core Financial Statements - Retirement Benefits).

6. SIGNIFICANT MATTERS

The budget submission for the 2012 financial year was given approval by the Management Committee at the meeting in November 2011. The budget was built on assumptions of strong growth in new markets and control of costs to bring operating cost to sales ratio down.

Growth has again been achieved in target areas despite the decline in the market sector as a whole. The efficiency gains in the stores operations has led to an increased level of throughput without significantly increasing costs.

A valuation of the Organisations Land and Buildings conducted as at the 31st December 2012 revealed a significant reduction in the value of the buildings held at both Warehouses. This was due to the continued lack of capital finance available in the market place leading to a surplus of large industrial premises in the Yorkshire area. The statement of Accounts reflects the reduction in value of £990k.

A dividend distribution of £7.1m declared in respect of the 2011 trading year, was distributed in September 2012. This included a non cash loyalty bonus of £1.8m payable to individual customers by way of a voucher to be used against future purchases of product. The balance of £5.7m in the cash flow statement represents the cash distribution and a distribution of unused vouchers issued in 2011.

7. MEDIUM TERM FINANCIAL STRATEGIES

The 2013 budget was approved by the Committee in November 2012 as year two of a three year strategy which was presented in full to the March 2012 committee. The three year strategy focuses on growth within a declining market by developing new markets and new offerings. The financial plan will support these developments while maintaining existing business by making cost efficient investments within the infrastructure and controlling inflationary factors where possible. Operating costs as a percentage of income are to be actively managed and brought down in a controlled manner this will ensure reductions in expenditure are sustainable for the future and incorporate necessary investment.

Ian Knowles FCCA
Corporate Director
26 April 2013

Statement of Responsibilities

THE ORGANISATION'S RESPONSIBILITIES

The Organisation is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Organisation that officer is the Director of Finance and Property of the servicing authority - Wakefield MDC. Day to day financial management is the responsibility of the Corporate Director YPO.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

THE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND PROPERTY

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

In preparing this statement of accounts, the Corporate Director YPO has:

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

The Corporate Director has also:

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

THE DIRECTOR OF FINANCE AND PROPERTY'S CERTIFICATE

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Yorkshire Purchasing Organisation at 31 December 2012 and its Income and Expenditure for the year then ended.

.....
JUDITH BADGER CPFA

Director of Finance and Property, City of Wakefield MDC, 26 April 2013

APPROVAL OF THE ACCOUNTS

As the Chair of the body considering the Yorkshire Purchasing Organisation's Statement of Accounts for 2012, I certify that the Accounts have been approved by the Management Committee and are authorised for issue.

.....
Cllr LES SHAW

Chairman YPO Audit Sub Committee, 26 April 2013

MOVEMENT IN RESERVES STATEMENT

The Movement In Reserves Statement shows the movement in year on the different reserves held by the Organisation analysed into "unusable" (i.e. those that can not be applied to fund expenditure) and other reserves. The surplus (deficit) on Operations line shows the true economic cost of operational activity in the year, more details of which are shown in the Comprehensive Income and Expenditure Statement. The Net increase / (decrease) before transfer to Earmarked Reserves line shows the General Fund Balance prior to any discretionary transfers to or from earmarked reserves applied by the Organisation.

2011	£000's Cash reserves			£000's Accounting Reserves			£000's Total other Reserves	£000's unusable reserves	£000's Total Reserves	Note
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee capital adjustment account	Earmarked Pension Reserve	Earmarked Accumulated absences account				
Balance as at 31 December 2010	19,210	56	-	13,003	(18,117)	(25)	14,127	879	15,006	
Movement in Reserves during 2011										
Surplus or (Deficit) on Provision of services	2,377	-	-	-	-	-	2,377	-	2,377	
Other Comprehensive Income	-	-	-	-	2,614	-	2,614	101	2,715	
Total Comprehensive Expenditure and Income	2,377	-	-	-	2,614	-	4,991	101	5,092	
Net Increase / (Decrease) before transfer to Earmarked Reserves	2,377	-	-	-	2,614	-	4,991	101	5,092	
Transfer (to) / from Earmarked Reserves	(1,539)	22	2,077	(173)	(339)	(20)	29	(29)	-	
Increase / (Decrease) in Movement in Year	839	22	2,077	(173)	2,275	(20)	5,020	72	5,092	
Balance as at 31 December 2011	20,049	78	2,077	12,830	(15,842)	(45)	19,147	951	20,098	13

2012	£000's Cash reserves			£000's Accounting Reserves			£000's Total other Reserves	£000's unusable reserves	£000's Total Reserves	Note
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee capital adjustment account	Earmarked Pension Reserve	Earmarked Accumulated absences account				
Balance as at 31 December 2011	20,049	78	2,077	12,830	(15,842)	(45)	19,147	951	20,098	
Movement in Reserves during 2012										
Surplus or (Deficit) on Provision of services	3,803	-	-	-	-	-	3,803	-	3,803	
Other Comprehensive Income	-	-	-	-	(7,427)	-	(7,427)	(628)	(8,055)	
Total Comprehensive Expenditure and Income	3,803	-	-	-	(7,427)	-	(3,624)	(628)	(4,252)	
Net Increase / (Decrease) before transfer to Earmarked Reserves	3,803	-	-	-	(7,427)	-	(3,624)	(628)	(4,252)	
Transfer (to) / from Earmarked Reserves	(41)	7	1,011	(601)	(131)	6	251	(251)	0	
Increase / (Decrease) in Movement in Year	3,762	7	1,011	(601)	(7,558)	6	(3,373)	(879)	(4,252)	
Balance as at 31 December 2012	23,811	85	3,088	12,229	(23,400)	(39)	15,774	72	15,846	13

Comprehensive Income and Expenditure Statement

2011		2012	
£'000		£'000	Note
108,453	Invoiced Turnover	128,447	1(b),6
(81,954)	Cost of Sales	(98,274)	
26,499	Gross Margin	30,173	
200	Discounts	225	
4,134	Rebates	4,546	1(b),6
1,473	Other Income	1,778	1(b),6
32,306	Gross Surplus	36,722	
	Operating Expenses		
(12,482)	Employees	(12,803)	
(819)	Premises	(1,234)	
(4,452)	Supplies and Services	(4,575)	
(4,461)	Transport	(5,834)	
(181)	S.L.A. Costs	(113)	
(90)	Financial and Miscellaneous	(343)	
(756)	Depreciation and revaluation increase / (decrease)	(863)	1(e), 8
(455)	Pension service gain (cost) net of charges made to the general fund	(455)	1(h),7
(23,696)		(26,220)	
8,610	Surplus / (deficit) on trading operations	10,502	
	Other Operating expenditure		
22	Gain/(Loss) on Disposal of Property, Plant and Equipment	7	
22		7	
	Financing and investment income and expenditure		
116	Pensions Interest Cost and Expected Return on Pension Assets	324	1(h),7
31	Interest Receivable	38	
(6,402)	Dividend paid	(7,068)	
(6,255)		(6,706)	
2,377	Surplus / (Deficit) on provision of service	3,803	
	Other Comprehensive income and expenditure		
2,614	Actuarial gains / (losses) on pension assets / liabilities	(7,427)	
101	Gains / (losses) on revaluations of PPE and depreciation	(628)	
2,715		(8,055)	
5,092	Total comprehensive Income and Expenditure	(4,252)	

BALANCE SHEET

The Balance Sheet shows the value as at the 31st of December 2012 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

31st Dec 2011 <u>£'000</u>		31st Dec 2012 <u>£'000</u>	<u>Note</u>
ASSETS AND LIABILITIES			
Long term Assets			
Property, plant and Equipment			
11,315	Land and Buildings	10,325	1(e), 8
<u>1,790</u>	Vehicles, Furniture & Equipment	<u>1,300</u>	1(e), 8
<u>13,105</u>	Total Long Term Assets	<u>11,625</u>	
Current Assets			
10,683	Inventories	10,095	1(m), 9
13,885	Short term debtors	15,116	1(u), 10
<u>6,277</u>	Cash and cash equivalents	<u>10,269</u>	
<u>30,845</u>	Total Current Assets	<u>35,480</u>	
Current Liabilities			
<u>(8,010)</u>	Short term creditors	<u>(7,859)</u>	1(v), 11
<u>(8,010)</u>	Total Current Liabilities	<u>(7,859)</u>	
<u>22,835</u>	Net Current Assets	<u>27,621</u>	
Long term Liabilities			
<u>(15,842)</u>	Liability relating to Defined Benefit Pension Scheme	<u>(23,400)</u>	1(h),7
<u>(15,842)</u>	Total long term liabilities	<u>(23,400)</u>	
<u>20,098</u>	Net Assets	<u>15,846</u>	
Financed by:			
Usable Reserves			
20,049	General Fund	23,811	
78	Usable Capital Receipts Reserve	85	1(g), 13
2,077	Internal Investment Reserve	3,088	1(g), 13
12,830	Joint Committee Capital Adjustment Account	12,229	1(g), 13
<u>(15,842)</u>	Pension Reserve	<u>(23,400)</u>	1(h),7,13
<u>(45)</u>	Earmarked Accumulated Absences Account	<u>(39)</u>	1(g), 13
Unusable Reserves			
951	Revaluation Reserve	72	1(g), 13
<u>20,098</u>	Total Reserves	<u>15,846</u>	

CASH FLOW STATEMENT

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

2011 £'000		2012 £'000	Notes
2,377	Net surplus/(deficit) on the provision of service	3,803	
	Adjustment to the net surplus / (deficit) for non cash movements		
756	Depreciation and revaluation increase / (decrease)	863	1(e), 8
(1,016)	(Increase)/Decrease in Inventories	588	
(3,251)	(Increase)/Decrease in Debtors	(1,231)	
339	(Increase)/Decrease in Pension Liability	131	
1,564	Increase/(Decrease) in Creditors	(151)	
(774)	Redemption of loyalty vouchers	(1,119)	
(2,382)		(919)	
	Adjustments for items included in the net surplus / (deficit) that are financing / investing activities		
(22)	Proceeds from sale of PPE	(7)	
5,802	Dividend payment	6,851	
5,780		6,844	
5,775	Net cash flows from operating activities	9,728	
	Net cash flows from investing Activities		
(555)	Purchase of PPE	(11)	
22	Proceeds from sale of PPE	7	
(533)		(4)	
	Net cash flows from financing Activities		
(5,028)	Dividend paid to members	(5,732)	
(5,028)		(5,732)	
214	Net increase / (decrease) in cash and cash equivalents	3,992	
6,063	Cash and cash equivalents at the beginning of the reporting period	6,277	
6,277	Cash and cash equivalents at the end of the reporting period	10,269	

Note on operating activities		
	The cash flows from operating activities include the following items	
31	Interest Receivable	38
31		38

Notes to the Core Financial Statements

The following notes provide more detailed information in order to assist understanding of the main financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL PRINCIPLES

The Organisation is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

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

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

The following policies have been adopted in compiling the accounts:

Fundamental Accounting Concepts:

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

a. ACCRUALS OF INCOME AND EXPENDITURE

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

b. TURNOVER

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

c. OVERHEADS

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

d. COMPONENTISATION OF NON CURRENT ASSETS

Non Current assets valued through the Organisation's 5 year programme of valuations are assessed for any significant components, where the value of the asset is greater than £1 million on revaluation. A significant component is an item with a value greater than 10% of the total asset value, and which has a different useful life to the rest of the asset. An exception to this is any specialist asset which the valuation officer may deem has a specialist component which should be recognised separately, where its useful life is significantly different from the remaining total asset.

Capital expenditure is monitored throughout the year and included in the budget and business planning process to identify replacement or changes of a significant component on non current assets.

The carrying value of any component being replaced will be charged to the revenue account as a disposal. This balance is then reversed out of the General Fund in the Movement in Reserves Statement and posted to the Joint Committee Capital Adjustment Account.

Notes to the Core Financial Statements

e. NON CURRENT ASSETS

- i) Expenditure on the acquisition, creation or enhancement of non current assets , with a value in excess of £5,000, is capitalised on an accruals basis, provided they have an estimated life in excess of one year. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits is charged as an expense when it is incurred. All expenditure on non current assets that is capitalised is recognised in the Organisation's Asset Register and Balance Sheet and depreciated over the useful life of the asset.
- ii) Non current assets are valued at purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- iii) Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from the fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified the accounting treatment is that the carrying amount of the asset is written down against any revaluation gain in the Revaluation Reserve or where there is no, or insufficient balance in the Revaluation Reserve the asset is written down against the Comprehensive Income and Expenditure Account.

The latest valuation date of land and buildings was 31 December 2012, and was carried out by J Duck FRICS of NPS Humber Ltd.

- iv) Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where an impairment of a non current asset has been recognised it is accounted for as a charge in the Comprehensive Income and Expenditure Statement where there is no or insufficient accumulated gains in the Revaluation Reserve against which all losses can be written off.

Where an impairment loss is reversed subsequently, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

- v) Where a revaluation loss on a non current asset is recognised as part of a review or a valuation exercise it is accounted for as a charge against the Comprehensive Income and Expenditure Account where there is no or insufficient accumulated gains in the Revaluation Reserve which all losses can be written off.
- vi) When an asset is disposed of, or decommissioned, any gain or loss on the disposal is credited or charged to the Comprehensive Income and Expenditure Statement. The gain or loss is calculated by reference to the difference between the sale proceeds of the asset and the value of the asset in the balance sheet plus any material costs of disposal. Any revaluation gains in the Revaluation Reserve, relating to the asset disposed of, are transferred to the Joint Committee Capital Adjustment Account.

Receipts from disposals are credited to the Usable Capital Receipts Reserve and can be used for new capital investment. Receipts are appropriated to the Usable Capital Receipts Reserve from the Movement in Reserves Statement.

- vii) Depreciation has been provided for using the straight-line method on Buildings (excluding land), Vehicles and Equipment. The useful lives of the various assets held on the Asset Register are as follows:

Freehold Buildings	2012
41 Industrial Park	36 years
Flanshaw Way	31 years
Motor Vehicles	5 years
Warehouse and Office Equipment	5 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Joint Committee Capital Adjustment Account.

f. INTANGIBLE FIXED ASSETS

Intangible fixed assets are assets that do not have any physical substance but which the Organisation controls access to the future economic benefits derived from them, either through custody or legal protection.

Expenditure on intangible assets is subject to the same recognition criteria as tangible fixed assets as stated in note d. Intangible assets will be brought on to the Balance Sheet at cost and amortised on a straight line basis over the period for which benefit is received. It is assumed there will be nil residual value. Annual reviews of the value of intangible fixed assets will be undertaken. The Balance Sheet as at 31 December 2012 does not include any intangible fixed assets.

g. RESERVES

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

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

Notes to the Core Financial Statements

h. EMPLOYEE BENEFITS

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

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at average salary rate. The accrual is charged to the Comprehensive Income and Expenditure Statement but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Organisation to terminate an officer's employment before the normal retirement date or an officers decision to accept voluntary redundancy and are charged on an accrual basis to the relevant line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Organisation to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Organisation are members of the Local Government Pensions Scheme known as the West Yorkshire Pension Fund and administered by Bradford Council. The scheme is a defined benefit scheme providing employees with a retirement lump sum and pension.

The Local Government Pension Scheme

The liabilities of the West Yorkshire Pension Fund attributable to the Organisation are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.4% on funded liabilities and 4.1% on unfunded liabilities (based on a weighted average of "spot yields" on AA rated corporate bonds).

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

- . quoted securities - current bid price
- . unquoted securities - professional estimate
- . unitised securities - current bid price
- . property - market value

the change in the net pensions liability is analysed into seven components:

Current service cost - the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement.

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

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

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

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the

Notes to the Core Financial Statements

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

Discretionary Benefits

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

i. TAXATION

Local authorities are exempt from Income, Corporation and Capital Gains Taxes. Income and expenditure normally excludes amounts relating to Value Added Tax (VAT), as VAT collected is payable to HM Revenue and Customs and VAT paid is normally recoverable from them. Exceptionally, if VAT is irrecoverable it is charged to revenue expenditure or capital expenditure as appropriate.

j. EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

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

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

k. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are reflected in the accounts up to the date when the Statement of Accounts was authorised for issue and are accounted for in accordance with IAS10.

Where an event arises which provides additional evidence relating to conditions existing at the Balance Sheet date, or which indicates that application of the going concern concept to the Organisation is not appropriate (an adjusting event), then adjustments have been made to the accounts, where the amounts are material.

Any material event, which concerns conditions that did not exist at the Balance Sheet date (a non-adjusting event), has been disclosed as a note to the Core Financial Statements. The note states the nature of the event and, where possible, an estimate of its financial effect.

l. INTEREST RECEIVABLE/PAYABLE

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

m. INVENTORIES

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

n. LEASES

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

YPO accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to YPO. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Fixed Assets held under finance leases are accounted for as part of Property, Plant and Equipment. No assets were held on finance leases as at 31st December 2012.

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

o. CONTINGENT LIABILITIES

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

p. PROVISIONS

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

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

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

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

Notes to the Core Financial Statements

q. FINANCIAL INSTRUMENTS

The Organisation's financial instruments are represented by bank balances, inventories, trade creditors and trade debtors.

Bank balances are represented by cash balances held in UK bank accounts and are shown on the face of the Balance Sheet. Interest earned on balances are credited to the Comprehensive Income and Expenditure Statement.

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

Trade debtors are stated in the Balance Sheet at historical cost. Irrecoverable debt is written off in the Comprehensive Income and Expenditure Statement. The Organisation is restricted to dealing with customers in the Public Sector and therefore its exposure to bad debt is minimised.

Trade Creditors are carried at historical cost and represent amounts owing to third party suppliers. Creditor accounts are settled on a cash basis when:-

- . satisfactory provision of the goods or service has been performed
- . there is reasonable evidence that the goods or service is imminent or substantially complete
- . an agreed contractual obligation exists to remit payment.

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

r. ESTIMATION TECHNIQUES

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

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

s. CASH & CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are deposits that are readily convertible to known amounts of cash with insignificant risk of change in value.

t. FOREIGN CURRENCY TRANSLATION

Where business transactions are processed in a currency other than Sterling the Sterling value at the point of the currency translation has been used. Where the amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate as at the 31 December. Resulting gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

u. DEBTORS

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

v. CREDITORS

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

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

During 2012 the following accounting standards came into force:-

FRS 30 a heritage asset is defined as an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Organisation held no such assets as at the 31 December.

IFRS 7 was amended and changes the way in which credit risk associated with financial instruments is accounted for and disclosed YPO's exposure to credit risk associated to financial instruments is negligible as the fair value used equates to the actual cash value and is not subject to collateral change due to risk.

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

The Code of Practice on Local Authority Accounting 2011/12 requires the Organisation to disclose information relating to the impact on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Organisation. The following new standards are due to come into force in the next accounting period:-

IFRS 10 Consolidated Financial Statements.

IFRS 11 Joint Arrangements.

IFRS 12 Fair Value Measurement.

The Organisation does not expect any significant changes in regards to the above standards however they will be fully assessed and adopted where necessary in the 2013 Statement of Accounts.

Notes to the Core Financial Statements

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Leasing

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

Related Party Transactions

The Organisation trades extensively with its owning authorities however, as no one particular authority can exert any controlling influence over the Organisation and all transactions are on an arms length basis they are not classified as related parties in this statement of accounts. For clarity trading with member authorities is included under note 16 of this statement.

Asset ownership

Under s102 of the Local Government Act 1972, a Joint Committee does not have the corporate status to acquire assets. However, given that YPO both enjoys the economic benefits from and assumes liabilities for its land and building assets, the "substance over form" policy justifies the inclusion of the assets in the Organisation's accounts.

Invoicing of direct supply goods

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

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on either assumptions made by the Organisation about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Items included in this Statement of Accounts for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension assets and the discount rates used bring future assumptions to present values. A firm of consulting actuaries is engaged to provide the Organisation with expert advice about the assumptions to be applied.

These assumptions interact in complex ways and could produce a range of different results depending on the mix of changes in assumptions. For instance , a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of around £6.66m.

Framework Contract Income

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

Whilst every effort is made by the Organisation to accurately forecast balances due to the Organisation as at the year end, there is a risk that returns on these contracts may either exceed or be less than the estimate made at the date of the closure of the accounts. The impact on the statements in the following year will be dependent on the mix of positive and negative variances against estimates. If the estimate of income due was to be different by 5% this would represent a movement of around £50K.

PROPERTY, PLANT AND EQUIPMENT

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.

The Organisation takes independent advice on the valuation of buildings and believes the depreciation policies adopted accurately reflect the current market value of assets held, however there is a risk that any sale value will be very much dependent on the economic climate at the point of sale. At the year end the Organisation was not intending disposing of any major assets.

Foreign currency transactions

Transactions in foreign currencies are recorded in the statement of accounts in sterling using the spot exchange rate on recognition of the liability.

Goods in transit from an overseas source are included in this statement of accounts valued at the spot rate as at the 31st of December and any exchange rate difference arising on the actual payment will be accounted for in the income and expenditure account the difference relates to the movement in spot rates between the two events and is assumed to be negligible due to the relative stability in exchange rates between the US dollar and sterling.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

During 2012 there have been several items of material income and expenditure that have been reflected in this statement of accounts, the main ones are;

Invoiced turnover in 2012 was £128.4m, an increase of £19.9m (or 18.3%) compared with 2011 and in excess of the forecast of £106.4m. This figure included £12m from supporting the DFE in the deliverance of the Phonics initiative into primary schools.

An agreed dividend distribution of £7.1m for the trading year 2011 was distributed in September 2012. This distribution included

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all customers. As at the 31st of December there was a balance of £431k of loyalty vouchers unredeemed.

6. TURNOVER

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

7. RETIREMENT BENEFITS

Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, YPO offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Organisation has a commitment to disclose the payments as at the time that officers and employees earn their future entitlement.

The Organisation participates in the West Yorkshire Pension Fund (WYPF) which is a funded defined salary scheme, into which staff and the Organisation, pay contributions at a level predetermined by the actuary. The employers contribution rate set by the actuary (12.9% from April 2012, 13.6% January to March) is intended to balance the pensions liabilities with the investment asset over a period. The latest actuarial valuation of the funded scheme (triennial) was as at March 2010 which set the employers rate from April 2012 as 12.9% and 12.3% from April 2013 with an estimated recovery period of 22 years. Employer contributions in the year totalled £1,203,475 (2011: £1,346,100).

The latest actuarial valuation of the unfunded scheme was as at December 2012. Liabilities have been estimated on an actuarial basis using the projected unit credit method. The principal assumptions used are set out in this note.

In addition, the Organisation is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2012 this amounted to £177,321 (2011: £140,333).

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

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

The actual return on assets to the period ended 31st December 2012 was £3.535m and comprised an expected return on assets of £3,608m and an actuarial loss of £0.073m.

The Employers regular contributions to the pension fund for the accounting period to 31st December 2012 are estimated to be £1.203m funded and £0.177m unfunded.

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

	Males		Females	
	2011	2012	2011	2012
Rating to above base table	0	0	0	0
Scaling to above base table rates	105%	105%	105%	105%
Cohort improvement factors	CMI 2009	CMI 2009	CMI 2009	CMI 2009
Minimum underpin to improvement factors	1.25%	1.25%	1.25%	1.25%
Future lifetime from age 65 (currently aged 65)	21.9	22.0	24	24.1
Future lifetime from age 65 (currently aged 45)	23.7	23.8	26	26.1

	Funded 2011 £'000	Unfunded 2011 £'000	Funded 2012 £'000	Unfunded 2012 £'000	Total 2011 £'000	Total 2012 £'000
Comprehensive Income and Expenditure Account						
Cost of Service						
Current Service Cost	1,765	-	1,807	-	1,765	1,807
Past Service (Gain)/Cost	20	-	28	-	20	28
Curtailement (Gain)/Loss	-	-	-	-	-	-
Financing and investment income and Expenditure						
Expected return on Assets	(3,918)	-	(3,608)	-	(3,918)	(3,608)
Interest on pension Liabilities	3,754	48	3,245	39	3,802	3,284
Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services	1,621	48	1,472	39	1,669	1,511
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Actuarial (gains) / Loss	(2,608)	(6)	7,321	106	(2,614)	7,427
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(987)	42	8,793	145	(945)	8,938
Movement in Reserves Statement						
Reversal of net charges made to the comprehensive Income and Expenditure account for post employment benefits in accordance with the Code	(1,621)	(48)	(1,472)	(39)	(1,669)	(1,511)
Actual amount charged against the General Fund balance for pensions in the year:						
- employer's contributions to the pension scheme	1,190	-	1,203	-	1,190	1,203
-retirement benefits payable to pensioners	-	140	-	177	140	177
Total Charge against the General fund	(431)	92	(269)	138	(339)	(131)

Notes to the Core Financial Statements

Assets and Liabilities in relation to Post-employment benefits

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

	Funded Liabilities		Unfunded Liabilities	
	2011 £'000	2012 £'000	2011 £'000	2012 £'000
Balance at 1st January	(70,801)	(68,874)	(912)	(888)
Current Service Cost	(1,765)	(1,807)	-	-
Interest Cost	(3,754)	(3,245)	(48)	(39)
Contributions by scheme participants	(557)	(588)	-	-
Actuarial gains and losses	5,751	(7,220)	6	(106)
Benefits paid	2,272	2,066	66	67
Past service costs and curtailments	(20)	(28)	-	-
Balance at 31st December	(68,874)	(79,696)	(888)	(966)

The unfunded liabilities do not have assets in the scheme to support them. Below is a breakdown of scheme assets in relation to the funded liabilities.

Reconciliation of Fair Value of the Scheme Assets

	2011 £'000	2012 £'000
Balance at 1st January	53,596	53,920
Expected return on assets	3,918	3,608
Actuarial gains and losses	(3,225)	(73)
Employer contributions	1,346	1,285
Contributions by scheme participants	557	588
Benefits paid	(2,272)	(2,066)
Balance at 31st December	53,920	57,262

The Organisation's pension fund actuary employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on each asset is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 December 2012.

Scheme History

	2008 £000s	2009 £000s	2010 £000s	2011 £000s	2012 £000s
Fair value of assets	40,384	47,296	53,596	53,920	57,262
Present value of liabilities	(48,925)	(72,371)	(71,713)	(69,762)	(80,662)
Total	(8,541)	(25,075)	(18,117)	(15,842)	(23,400)

The liabilities show the underlying commitment that the Organisation has in the long run to pay post employment / retirement benefits. The total liability of £23,400k has a substantial impact on the net worth of the organisation as recorded in the balance sheet, resulting in the overall balance being reduced by £7,558k. However arrangements for funding the deficit mean that the financial position of the organisation remains healthy.

- The deficit on the scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions expected to be made by the Organisation to the Local Government Pension Scheme in the year to 31st December 2013 are £1.30m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2013 are £0.64m.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The scheme has been assessed by Hewitt Associates Limited, an independent firm of actuaries. Estimates for the fund have been based on the latest full valuation of the funded scheme as at the 31st March 2010 and the unfunded scheme as at 31st December 2012.

Notes to the Core Financial Statements

The principal assumptions used by the actuary have been:

Financial Assumptions used in estimating assets and liabilities:

Long-term expected rate of return on assets in the scheme

Equity investments
Property
Bonds
Other assets

Mortality assumptions

Longevity at 65 for future pensioners
Men
Women

Longevity at 65 for current pensioners
Men
Women

Duration of Liabilities (in years)

Rate of Inflation (RPI)

Rate of Inflation (CPI)

Rate of Increase in Salaries

Rate of Increase in Deferred Pensions

Rate of Increase in Pensions

Rate for discounting scheme liabilities

Take-up of option to convert annual pension into retirement lump sum

	Funded element		Unfunded element	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
Equity investments	7.80%	7.70%		
Property	7.30%	7.20%		
Bonds	3.10%	2.83%		
Other assets	6.24%	5.00%		
Longevity at 65 for future pensioners				
Men	23.7 years	23.8 years		
Women	26 years	26.1 years		
Longevity at 65 for current pensioners				
Men	21.9 years	22.0 years	21.9 years	22.0 years
Women	24 years	24.1 years	24 years	24.1 years
Duration of Liabilities (in years)	17.5	17.5	12	12
Rate of Inflation (RPI)	3.20%	3.20%	3.10%	3.00%
Rate of Inflation (CPI)	2.20%	2.50%	2.10%	2.30%
Rate of Increase in Salaries	4.70%	4.70%	-	-
Rate of Increase in Deferred Pensions	2.20%	2.50%	-	-
Rate of Increase in Pensions	2.20%	2.50%	2.10%	2.30%
Rate for discounting scheme liabilities	4.70%	4.40%	4.60%	4.10%
Take-up of option to convert annual pension into retirement lump sum	50-75%	50-75%		

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

	Assets held	
	<u>2011</u>	<u>2012</u>
	%	%
Equity investments	69.30%	70.20%
Property	3.90%	3.50%
Bonds	18.70%	18.20%
Other assets	8.10%	8.10%
TOTAL	100.0%	100.0%

History of experience gains and losses

The actuarial gains identified as movements on the pensions reserve in 2012 can be analysed into the following categories, measured as a percentage of the assets or liabilities as at the 31st December 2012.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	%	%	%	%	%
Differences between the expected and actual return on assets	29.1	9.3	6.6	(6.0)	(0.1)
Experience gains and losses on liabilities	22.9	9.9	1.3	4.7	(0.8)

Notes to the Core Financial Statements

8. Property Plant and Equipment

As at 31 December 2012, the Organisation held the following assets

Property plant and equipment were predominantly represented by 47 Delivery vehicles (2011 = 47), 98 Container units (2011 = 98) and Land and Buildings comprising of one general supplies warehouse and office complex located at 41 Industrial Park, Wakefield and one located at Flanshaw Way, Wakefield (no change from 2011).

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2012
 Acc depreciation write out to gross carrying amount
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the I&E
 Additions
 Impairment
 Disposals

At 31 December 2012

Depreciation and impairments

Opening balance 1 January 2012
 Charge for depreciation 2012
 Disposals
 Impairment
 Revaluation

At 31 December 2012

Net Book Value at 31 December 2012

Net Book Value at 1 January 2012

	Land & Buildings £'000	Furniture & Equipment £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2012	11,315	1,149	3,036	15,500
Acc depreciation write out to gross carrying amount	(265)			(265)
Revaluation increase / (decrease) recognised in the Revaluation Reserve	(628)			(628)
Revaluation increase / (decrease) recognised in the I&E	(97)			(97)
Additions		11		11
Impairment				
Disposals				
At 31 December 2012	10,325	1,160	3,036	14,521
Opening balance 1 January 2012	0	822	1,573	2,395
Charge for depreciation 2012	265	90	411	766
Disposals				
Impairment				
Revaluation	(265)			(265)
At 31 December 2012	0	912	1,984	2,896
Net Book Value at 31 December 2012	10,325	248	1,052	11,625
Net Book Value at 1 January 2012	11,315	327	1,463	13,105

2011 Comparative

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2011
 Acc depreciation write out to gross carrying amount
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the I&E
 Additions
 Impairment
 Disposals

At 31 December 2011

Depreciation and impairments

Opening balance 1 January 2011
 Charge for depreciation 2011
 Disposals
 Impairment
 Revaluation

At 31 December 2011

Net Book Value at 31 December 2011

Net Book Value at 1 January 2011

	Land & Buildings £'000	Furniture & Equipment £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2011	11,550	1,083	2,993	15,626
Acc depreciation write out to gross carrying amount	(345)	-	-	(345)
Revaluation increase / (decrease) recognised in the Revaluation Reserve	101	-	-	101
Revaluation increase / (decrease) recognised in the I&E	9	-	-	9
Additions	-	66	489	555
Impairment	-	-	-	-
Disposals	-	-	(446)	(446)
At 31 December 2011	11,315	1,149	3,036	15,500
Opening balance 1 January 2011	-	737	1,683	2,420
Charge for depreciation 2011	345	85	336	766
Disposals	-	-	(446)	(446)
Impairment	-	-	-	-
Revaluation	(345)	-	-	(345)
At 31 December 2011	0	822	1,573	2,395
Net Book Value at 31 December 2011	11,315	327	1,463	13,105
Net Book Value at 1 January 2011	11,550	346	1,310	13,206

Notes to the Core Financial Statements

9. Inventories

31st Dec 2012	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	10,640	43	10,683
Purchases	61,862	400	62,262
Recognised as an expense in year	(62,428)	(372)	(62,800)
Stock write downs in the year	-	-	-
Reversals of write offs in previous years	-	-	-
Provision for stock write off	(50)	-	(50)
Closing Inventory balance	10,024	71	10,095

31st Dec 2011	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	9,632	35	9,667
Purchases	58,408	338	58,746
Recognised as an expense in year	(57,370)	(330)	(57,700)
Stock write downs in the year	-	-	-
Reversals of write offs in previous years	-	-	-
Provision for stock write off	(30)	-	(30)
Closing Inventory balance	10,640	43	10,683

10. DEBTORS AND PAYMENTS IN ADVANCE

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

	31st Dec 2011 £'000	31st Dec 2012 £'000
Trade Debtors	10,900	12,099
Accumulated Absences	3	4
Less - Provision for Bad Debts	(14)	(232)
	10,889	11,871
Payments in Advance and accrued income	2,996	3,245
Total	13,885	15,116

Debtors are analysed by the following categories

Trade debtors

	31st Dec 2011 £'000	31st Dec 2012 £'000
central government bodies	640	1,504
other local authorities	9,450	9,893
NHS bodies	41	29
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	769	673
	10,900	12,099

Payments in advance and accrued income

central government bodies	-	-
other local authorities	-	-
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	2,996	3,245
	2,996	3,245

Notes to the Core Financial Statements

11. CREDITORS AND RECEIPTS IN ADVANCE

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

	31st Dec 2011 £'000	31st Dec 2012 £'000
Creditors and Receipts in Advance		
Trade Creditors	5,418	4,459
Accruals	2,233	2,505
VAT	311	852
Accumulated absences	48	43
Total	8,010	7,859

Creditors are analysed by the following categories

Trade creditors

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

	31st Dec 2011 £'000	31st Dec 2012 £'000
central government bodies	-	-
other local authorities	66	42
NHS bodies	-	-
public corporations and trading funds	4	-
bodies external to general government (i.e. all other bodies).	5,348	4,417
	5,418	4,459

Accruals/VAT

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

central government bodies	312	852
other local authorities	1,327	1,044
NHS bodies	-	-
public corporations and trading funds	24	-
bodies external to general government (i.e. all other bodies).	881	1,461
	2,544	3,357

Long Term Liabilities

Liability relating to Defined Benefit Pension Scheme

	31st Dec £'000	31st Dec 2012 £'000
Liability relating to Defined Benefit Pension Scheme	15,842	23,400
Total	15,842	23,400

12. RISK TO FINANCIAL INSTRUMENTS

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

Bank balances are held in UK bank accounts and earn interest based on aggregated overnight investments rates managed by the treasury function of Wakefield Metropolitan District Council (WMDC). Risks to cash arise in the form of banking failures either within the UK or on overseas overnight investments.

Creditors are suppliers of goods and services to the organisation. Risk is minimised from a robust set of procedures to ensure that all goods and services supplied to the organisation are properly ordered and received prior to the payment of any sums due.

Debtors are comprised of customers and some trade suppliers owing funds to the organisation. The inherent risk is one of failure to settle outstanding debts due to bankruptcy or other financial problems. Most customers are within the public sector which mitigates this risk to a large extent.

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

	2011 £'000	2012 £'000
Two to six months	1,106	2,326
Six months to one year	866	532
More than one year	769	618
Total	2,741	3,476

A general provision of £232k (2011 £14k) has been included against debtors more than one year old.

Notes to the Core Financial Statements

13. MOVEMENTS IN RESERVES

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

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

Reserve	31st Dec 2011	31st Dec 2012	Net Movement	Note
	£'000	£'000	in the Year £'000	
<u>Usable reserves</u>				
General Fund Balance	20,049	23,811	3,762	i
Capital Receipts Reserve	78	85	7	ii
Internal Investment Reserve	2,077	3,088	1,011	iii
Joint Committee Capital Adjustment Account	12,830	12,229	(601)	iv
Earmarked Pension reserve	(15,842)	(23,400)	(7,558)	v
Earmarked Accumulated Absences Account	(45)	(39)	6	vi
<u>Unusable reserves</u>				
Revaluation reserve	951	72	(879)	vii
Total reserves	20,098	15,846	(4,252)	

(i) The General Fund Balance represents the accumulated operating surplus of the Organisation and are maintained at a prudent level. to protect the Organisation against unforeseen events and the realisation of contingent liabilities.

	2011 £'000	2012 £'000
General fund balance		
Balance bought Forward 1st of January	19,210	20,049
Surplus or deficit on operations	2,377	3,741
Total comprehensive income and expenditure	2,377	3,803
Depreciation and impairment	766	766
Revaluation losses (gains)	(9)	97
Capital expenditure charged to the GF	(555)	(11)
Transfer of cash sale proceeds	(22)	(7)
Use of UCRR to fund capital expenditure	-	-
Reversal of IAS 19 charges to I&E	1,669	1,511
Employer's pension contributions	(1,330)	(1,380)
Movement in employee absence accrual	20	(6)
Total voluntary adjustments	539	970
Pension Contribution Reserve	-	-
Internal Investment Reserve	(2,077)	(1,011)
Total transfers to/from cash reserves	(2,077)	(1,011)
Total transfers to/from earmarked reserves	(1,538)	(41)
Balance Carried Forward 31st December	20,049	23,811
Movement in year represented in the Movement in Reserves Statement	839	3,762

The transfer of cash sale proceeds in 2012 relates to disposals made in 2011 where income was not expected and the income was not received until 2012.

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

	2011 £'000	2012 £'000
Usable Capital Receipts Reserve		
Balance bought Forward 1st of January	56	78
Amounts Received		
General receipts	22	7
Amounts Applied		
New Capital Investment	-	-
Balance Carried Forward 31st December	78	85
Movement in year represented in the Movement in Reserves Statement	22	7

Notes to the Core Financial Statements

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

	2011 £'000	2012 £'000
Internal Investment Reserve		
Balance bought Forward 1st of January	-	2,077
Transferred to Reserves		
Reserves for specific projects created in year	2,717	1,743
Amounts Applied		
Reserve balances utilised in year	(624)	(530)
Amounts released back to the General Fund		
Reserve balances no longer required and released back to the General Fund	(16)	(202)
Balance Carried Forward 31st December	2,077	3,088
Movement in year represented in the Movement in Reserves Statement	2,077	1,011

(iv) The Joint Committee Capital Adjustment Account is an earmarked reserve representing the accumulation of the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal, offset by the resources that have been set aside to finance capital expenditure.

The Joint Committee Capital Adjustment Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure and to repay debt.

	2011 £000	2012 £000
Joint Committee Capital Adjustment Account		
Balance bought Forward 1st of January	13,003	12,830
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(766)	(766)
Revaluation (losses) gains on property plant and equipment	9	(97)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-
Adjusting amounts written out of Revaluation Reserve	29	251
	12,275	12,218
Net Written out amount of the cost of non-current assets consumed in the year		
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-
Capital expenditure charged against the General Fund	555	11
	12,830	12,229
Balance Carried Forward 31st December	12,830	12,229
Movement in year represented in the Movement in Reserves Statement	(173)	(601)

(v) The Earmarked Pension Reserve is an earmarked reserve representing the difference between the actuarially calculated value of the pension fund assets and the present value of scheme liabilities.

	2011 £000	2012 £000
Earmarked Pension Reserve		
Balance bought forward 1st January	(18,117)	(15,842)
Actuarial Gains or (losses) on pension assets and Liabilities	2,614	(7,427)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(1,669)	(1,511)
Employers pensions contributions and direct payments to pensioners payable in year	1,330	1,380
Movement on Assets and Liabilities in year	(15,842)	(23,400)
Movement in year represented in the Movement in Reserves Statement	2,275	(7,558)

Notes to the Core Financial Statements

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

	2011 £000	2012 £000
Earmarked Accumulated Absences Account		
Balance bought forward 1st January	(13)	(45)
Settlement or cancellation of accrual made in preceding year	25	45
Amount to be accrued for current year	(45)	(39)
Amount to be charged to the Comprehensive Income and Expenditure Statement	(20)	6
Balance as at 31st December	(45)	(39)
Movement in year represented in the Movement in Reserves Statement	(20)	6

(vii) The Revaluation reserve represents unrealised gains on the revaluation of property plant and equipment. The balance is reduced when assets with accumulated gains are:

- a) revalued downwards or impaired and the gains are removed
- b) used in provision of services and the gains are consumed through depreciation, or
- c) disposed of and the gains realised

	2011 £000	2012 £000
Revaluation Reserve		
Balance bought Forward 1st of January	879	951
Upward revaluation of assets	101	-
Difference between fair value depreciation and historical cost depreciation	(29)	(21)
Revaluation written out to the General Fund	-	(628)
Adjusting amounts written out of the Joint Committee Capital Adjustment Account	-	(230)
Balance Carried Forward 31st December	951	72
Movement in year represented in the Movement in Reserves Statement	72	(879)

14. EMPLOYEE EMOLUMENTS

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

REMUNERATION BAND £	No of Employees	
	2011	2012
50,000 - 54,999	-	4
55,000 - 59,999	2	1
60,000 - 64,999	1	2
65,000 - 69,999	-	1
70,000 - 74,999	2	1
75,000 - 79,999	-	-
TOTAL	5	9

Notes to the Core Financial Statements

The table below sets out the remuneration disclosure for Senior Officers (Board of Directors) whose salary is £50,000 per year or more by job title. Comparative figures for 2011 are also shown and these officers are excluded from the above table.

2012					
Post	Salary	Expenses	Pay in Lieu of Notice	Pension Contributions	Total Remuneration
Managing Director	125,609	-	-	15,690	141,299
Corporate Director	89,781	-	-	11,114	100,895
Commercial Director	89,944	-	-	14,514	104,458
Supply Chain Director	89,813	-	-	11,114	100,927
	395,147	-	-	52,432	447,579

2011					
Post	Salary	Expenses	Pay in Lieu of Notice	Pension Contributions	Total Remuneration
Managing Director	61,837	-	-	8,028	69,865
Corporate Director	89,702	-	-	11,709	101,411
Commercial Director	22,596	-	-	2,890	25,486
Supply Chain Director	90,756	-	-	11,709	102,465
	264,891	-	-	34,336	299,227

The roles of Managing Director and Commercial Director were new recruitments in July and October 2011 respectively. These roles up until the permanent appointments had been made, had been filled by interim Directors who's costs are included in agency costs under the employees heading on the Comprehensive Income and Expenditure Statement. Annualised salaries for these posts are shown in the table below.

2011					
Post	Salary	Expenses	Pay in Lieu of Notice	Pension Contributions	Total Remuneration
Managing Director	125,530	-	-	16,320	141,850
Commercial Director	90,316	-	-	11,709	102,025
	215,846	-	-	28,029	243,875

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

EXIT PACKAGE	No of compulsory redundancies		No of other departures		Total no of exit packages		Total cost of exit packages	
	2011	2012	2011	2012	2011	2012	2011	2012
£	No.	No.	No.	No.	No.	No.	£,000's	£,000's
0 - 20,000	3	2	-	1	3	3	12	43
20,001 - 40,000	1	1	-	2	1	3	39	82
Total	4	3	0	3	4	6	51	125

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

15. OPERATING LEASES

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

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

	2011	2012
	£000	£000
Not later than one year	258	264
Later than one year and not later than five years	354	247
Later than five years	872	861
	1,484	1,372

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2012 were £362k (2011 £332k) of which £9.50k was contingent rent of Flanshaw Way. The later than five years figure is comprised entirely of a long term lease agreement on the land element of a warehouse property held at Flanshaw Way in Wakefield.

Notes to the Core Financial Statements

16. AMOUNTS REPORTED FOR DECISION MAKING AND PLANNING

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Code. This is different to the basis on which the Organisation carries out its budgeting decision making and planning process.

The following shows how the Organisations financial reporting output can be reconciled to the Comprehensive Income and Expenditure Statement.

2011 £'000	YPO Profit & Loss 2012	2012 £'000
	Trading	
64,230	Stores	71,578
15,438	Food	15,982
28,785	Directs	40,887
108,453	Total Invoiced Sales	128,447
(82,039)	Cost of Sales	(98,274)
26,414	Gross Margin	30,173
200	Discounts	225
4,134	Rebates	4,546
1,473	Other Income	1,775
32,221	Total Income	36,719
	Operating Costs	
(11,952)	Employment costs	(12,776)
(819)	Premises	(917)
(3,922)	Supplies and Services	(4,441)
(5,452)	Transport	(5,788)
(181)	SLA costs	(113)
(90)	Financial & Misc	(343)
(723)	Depreciation	(862)
(23,139)	Total Operating Costs	(25,240)
31	Interest (payable)/receivable	38
22	Profit/(loss) on disposal of assets	7
-	Dividend paid	-
-	Pension costs	-
9,135	Surplus or (deficit)	11,524

2011 £'000	Reconciliation of P&L Account to I&E Account	2012 £'000
9,135	Net Profit in P&L Account	11,524
(6,758)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	(7,721)
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
2,377	Surplus on provision of service	3,803

Notes to the Core Financial Statements

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

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

YPO Profit & Loss 2012	Amts not rptd for mgt dec making		Alloc'n of reporting expenses	
	P&L Acct £'000	£'000	£'000	I&E Statement £'000
Total Invoiced Sales	128,447	-	-	128,447
Cost of Sales	(98,274)	-	-	(98,274)
Gross Margin				
Discounts	225	-	-	225
Rebates	4,546	-	-	4,546
Other Income	1,775	3	-	1,778
Total Income	36,719	3	-	36,722
Operating Costs				
Employment costs	(12,776)	(27)	-	(12,803)
Premises	(917)	(317)	-	(1,234)
Supplies and Services	(4,441)	(134)	-	(4,575)
Transport	(5,788)	(46)	-	(5,834)
SLA costs	(113)	-	-	(113)
Financial & Misc	(343)	-	-	(343)
Depreciation	(862)	(1)	-	(863)
Total Operating Costs	(25,240)	(525)	-	(25,765)
Interest (payable)/receivable	38	-	-	38
Profit/(loss) on disposals	7	-	-	7
Dividend paid	0	(7,068)	-	(7,068)
Pension costs	0	(131)	-	(131)
Surplus or (deficit) on provision of service	11,524	(7,721)	-	3,803

YPO Profit & Loss 2011	Amts not rptd for mgt dec making		Alloc'n of reporting expenses	
	P&L Acct £'000	£'000	£'000	I&E Statement £'000
Total Invoiced Sales	108,453	-	-	108,453
Cost of Sales	(82,039)	85	-	(81,954)
Gross Margin	26,414	85	-	26,499
Discounts	200	-	-	200
Rebates	4,134	-	-	4,134
Other Income	1,473	-	-	1,473
Total Income	32,221	85	-	32,306
Operating Costs				
Employment costs	(11,952)	(69)	(461)	(12,482)
Premises	(819)	-	0	(819)
Supplies and Services	(3,922)	-	(530)	(4,452)
Transport	(5,452)	-	991	(4,461)
SLA costs	(181)	-	-	(181)
Financial & Misc	(90)	-	-	(90)
Depreciation	(723)	(33)	-	(756)
Total Operating Costs	(23,139)	(102)	-	(23,241)
Interest (payable)/receivable	31	-	-	31
Profit/(loss) on disposal of ass	22	-	-	22
Dividend paid	-	(6,402)	-	(6,402)
Pension costs	-	(339)	-	(339)
Surplus or (deficit) on provision of service	9,135	(6,758)	-	2,377

Notes to the Core Financial Statements

17. RELATED PARTY TRANSACTIONS

The Organisation is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Organisation or to be controlled or influenced by the Organisation. During 2011 and 2012 the Organisation had no related party transactions.

Transactions with Founder Member Authorities are shown here for clarity. Founder member authorities are not classified as related parties under the Code of Practice or for the purpose of group accounting but have joint control over the Organisation's decision making and business planning. In addition to the founder members the Organisation has 24 associate members who have no influence over Organisational decision making.

Business transactions with the 13 founder member's accounts for a significant proportion of the Organisation's turnover. Membership entitles these authorities to a share of any annual profits and equal powers over key business decisions.

The value of business transacted with each founder member was:

	2011	2012
	£'000	£'000
Barnsley	12,889	14,372
Bolton	10,945	13,454
Bradford	22,880	25,443
Calderdale	8,195	9,829
Doncaster	16,229	19,169
Kirklees	18,361	22,161
Knowsley	5,487	6,051
North Yorkshire	12,321	17,436
Rotherham	12,229	13,996
St Helens	7,717	8,785
Wakefield	19,460	21,663
Wigan	11,220	12,780
York	6,574	6,210
	164,507	191,349

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

The YPO Management Committee is made up of elected representatives from each Member Authority. No personal interest in material transactions have been disclosed by any of the elected representatives or senior officers of the Organisation.

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

18. AUDIT COSTS

2012 Sees the first year of the transition of the audit arrangements from the Audit Commission to KPMG.

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

Audit Costs	2011	2012
	£000	£000
Fees payable to the Audit Commission (2011) and KPMG (2012) with regard to external audit services carried out by the appointed auditor	47	28

19. EVENTS AFTER THE BALANCE SHEET DATE

The March 2013 Management Committee Meeting approved the pre audit statement of Accounts and agreed a profit distribution in respect of the 2012 trading year of £8.2million covering members dividend and the YPO loyalty scheme.

Glossary of Terms

This glossary is provided to assist the reader. It gives explanations of common terms used in relation to local authority finance (which are not explained elsewhere in the Statement), many of which are used within this document.

Accounting Period

The period covered by the accounts, normally a period of twelve months commencing on 1 January. The end of the accounting period is the balance sheet date, 31 December.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Accumulated Absences

Accumulated absences are sums owing to or from employees at the end of the accounting period not yet claimed back or paid over for hours owed to / from under the flexible working scheme and holiday days over or under used at the period end.

Annual Governance Statement

A statutory document which provides an overview of the governance arrangements within the Organisation, aids the effective exercise of Organisation functions, and includes arrangements for the management of risk.

Asset

An item having value in monetary terms. Assets are defined as current or long term. A current asset will be consumed or cease to have material value within the next financial year. A long term asset provides benefits to the Organisation and its services for more than one year.

Audit of Accounts

An independent examination conducted on a test basis, of the Organisation's financial statements.

Budget

A statement of spending plans and anticipated income for a financial year.

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalent vouchers

These are vouchers issued to customers as loyalty bonus which are redeemable against future purchases.

Current Assets

Is an amount which will become receivable or could be called in within the next accounting period.

Defined Benefit Plans

Are post employment benefit plans other than a defined contribution plan. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the plan. The plan may be funded or unfunded.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a long term asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Direct Supply

Direct supply refers to the trading method employed by the Organisation where goods ordered by the customer are delivered direct from the supplier rather than the Organisation.

Exceptional Items

Where items of income or expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Organisation's financial performance.

Finance Lease

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

Financial Instrument

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

Financial Procedure Rules

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

Impairment

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

International Accounting Standards (IAS)

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

International Financial Reporting Standards (IFRS)

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

Inventories

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

Liability

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

Net Book Value

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

Net Expenditure

Gross expenditure less specific income.

Outturn

Actual income receivable and expenditure due in a financial year.

Payments in Advance

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

Prior year adjustments

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

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

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

Turnover

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

Useful life

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

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1. Scope of Responsibility

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

1.2 In discharging this overall responsibility, YPO is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Organisation's functions which include arrangements for the management of risk.

1.3 YPO has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the YPO Code of Corporate Governance is available on the website www.ypo.co.uk or can be obtained by telephoning 01924 824477.

1.4 This statement explains how YPO has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011, in relation to the publication of an Annual Governance Statement.

2 The Purpose of the Governance Framework

2.1 The governance framework comprises the systems and processes, and culture and values, by which YPO is directed and controlled and the activities through which it accounts to, engages with and supports the communities it serves. It enables YPO to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of YPO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at YPO for the year ended 31 December 2012 and up to the date of approval of the statement of accounts.

2.4 There are six core principles that good governance is based on:

- i) Focusing on the purpose of the Organisation and owning authorities and on outcomes for its customers and creating and implementing a vision for the Organisation.
- ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- iii) Promoting values for the Organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- iv) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- v) Developing the capacity and capability of Members and Officers to be effective.
- vi) Engaging with owning authorities, customers, suppliers and other stakeholders to ensure robust public accountability.

3 The Organisations Governance Framework

3.1 The following section describes the key elements of the systems and processes that comprise YPO's governance arrangements which were in place during 2012, set out against the six core principles identified in paragraph 2.4 above.

Core Principles of YPO's Code of Corporate Governance:

Core Principle 1 - Focusing on the purpose of the Organisation and owning authorities and on outcomes for its customers and creating and implementing a vision for the Organisation.

3.1.1 The purpose and vision for YPO is set out in the Organisation's strategic plan which aims to deliver effective efficient and economical arrangements for the supply of goods, materials and services by; securing the best terms for purchasing, storing and distributing items in common use; providing advice on standards and specifications and providing professional technical expertise. This is stated as:

"That every single public organisation achieves the best possible value for money when procuring its goods and services"

3.1.2 The vision has been integral to delivery of the Organisation's development and the continued transformation to meet current and future needs and expectations. The core values identified as being at the heart of everything YPO does are:

. **Choice:** We believe in providing customers with an informed choice at all times. To do this we must understand their needs, the options available in the market and the best possible way of matching the two. If appropriate choice does not exist, we will develop new ways of delivering best value.

. **Effectiveness:** Everything we do must be effective, and provide better value to our customers. Nearly 40 years experience helps us know what's effective and what's not, and we ensure everything we do brings measurable results.

. **Collaboration:** Partnership, not ownership. We always work alongside those we help, adapting to proactively meet their needs. Our role is to provide expertise and knowledge to ensure the public sector achieves the best possible value.

. **Professionalism:** As experts, we must provide a high quality, reliable service. We believe in the highest ethical standards, the need for constant development of our knowledge and the need to constantly seek better value for the public sector.

3.1.3 YPO's strategic objectives are reviewed annually and are supported by the production of an annual Business Plan and Budget linked to the vision and core values which detail the aims, objectives and priorities of the Organisation and communicates the planned activities.

3.1.4 YPO communicates its financial position, performance and achievements through the publication of an Annual Report and Statement of Accounts.

3.1.5 YPO has obtained ISO14001 (Environmental Management Systems) which aids in measuring and managing the Organisation's environmental impact and aspects.

3.1.6 YPO ensures that customers receive a high quality of service through the establishment and continuous monitoring of quality key performance indicators and by conducting an annual customer satisfaction survey.

3.1.7 YPO makes best use of resources to ensure customers receive excellent value for money, by establishing price benchmarking for key product categories at 'buying' price level and by establishing effective contract standing orders and financial procedure rules.

Core Principle 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles.

3.1.8 The Management Committee, which consists of representatives from each of the thirteen founder authorities, governs YPO policy and decision making arrangements and reflects openness, accountability and transparency. Specific procedural rules, protocols and policies are in place to govern Committee functions and delegated authority. The Management Committee and all sub-committees have clear terms of reference that are reviewed on a regular basis.

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

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

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

3.1.12 YPO has service level agreements in place with the Lead Authority covering the expected service delivery for HR, Finance, Internal Audit and Transport Services.

3.1.13 The YPO board have regular meetings with the Strategic Officers Group (which is comprised of senior officers from member authorities), the Section 151 Officer and Monitoring Officer of the Lead Authority.

3.1.14 All YPO employees have conditions of employment and job descriptions which set out their roles and responsibilities and are subject to the Organisations pay and grading structure.

Core Principle 3 – Promoting values for the Organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

3.1.15 YPO makes regular reports to its Management and Sub-Committees on issues of governance and conduct. Overall responsibility for governance lies with the Management Committee however powers are delegated to the Audit Sub-Committee to consider governance issues and provide assurances to support this statement as well as the Scrutiny Sub-Committee who review policy formulation and have call in powers to consider the appropriateness of executive decisions.

3.1.16 YPO has adopted the process of completing an annual assessment of risks surrounding governance arrangements and producing an assurance statement based on these risks which is signed off by the board.

3.1.17 YPO has developed the following policies which are applicable to all officers and are reviewed and updated as appropriate. These are based on the principles of good governance, shared values, expected standards of conduct and ethical principles:

- Anti Fraud and Corruption Policy
- Fraud Response Plan
- Code of Corporate Governance
- Complaints Procedure
- Standing Orders for Contracts
- Financial Procedure Rules
- Recruitment and Selection Policy and Procedures
- Disciplinary Procedures
- Whistle Blowing Code of Practice
- Code of Conduct
- Register of Employee Interests
- Gift and Hospitality Policy
- Risk Management Policy and Strategic Framework 2011
- Access to Information Policy
- Data Protection Policy
- Equality and Diversity Policy
- Health and Safety Policy

3.1.18 Members are required to comply with the policies of their own authority.

3.1.19 YPO is committed to the highest possible standards of openness, probity and accountability. In line with this commitment YPO has a Complaint Procedure and a Whistle blowing Code of Practice which enables anyone with concerns about any aspects of YPO to forward and voice these concerns.

Core Principle 4 – Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

3.1.20 Officers and members charged with decision making are provided with the relevant data and training in relation to technical issues, legal and financial issues and risk.

3.1.21 Decision making processes are transparent and result in relevant and recorded actions; timely decisions are made to ensure priorities are met. Forthcoming significant decisions are included in the Business Plan and the Scheme of Delegation to ensure that routine decisions are made at the right level, with Committee focusing on policy development and strategic issues. Scrutiny processes are robust and effective and include independent challenge through Elected Members.

3.1.22 YPO's approach to strategic and operational risk management is robust, with Elected Members playing a key role and receiving training from senior officers. Audit Sub-Committee members receive bespoke training on finance, audit and governance. Risk is reviewed regularly as part of the Audit Sub-Committee agenda and Management Committee review the Organisation's strategic risks as part of the business planning process.

3.1.23 Risk management arrangements centre on YPO's Risk Management Policy and Strategic Framework. Senior Management is charged with responsibility for implementing the appropriate actions, maintenance of the Organisation's risk register and regular review of risks.

Core Principle 5 -Developing the capacity and capability of Members and Officers to be effective.

3.1.24 YPO considers Member and Officer training to be critical to further their future development. YPO has in place a development programme that covers relevant topics and elements of the Member programme are aligned to the Organisations learning and development plan.

3.1.25 All members and officers are subject to an induction program and are required to continuously identify training needs relevant to their role.

3.1.26 YPO has introduced a work shadowing scheme which is open to all officers and is considering the implementation of mentoring and succession planning schemes.

3.1.27 All Officers have an annual appraisal that includes performance against objectives and reviewing and updating personal development plans.

Core Principle 6 - Engaging with owning authorities, customers, suppliers and other stakeholders to ensure robust public accountability.

3.1.28 YPO effectively engages with customers, suppliers, stakeholders and local people through two-way communication and feedback channels, including key customer and supplier forums, category events and procurement group meetings with owning authorities.

3.1.29 YPO Committee Meetings are held in public with report items considered in private only where appropriate to do so in line with relevant legislation.

3.1.30 YPO publishes an Annual Report and Statement of Accounts which provide information on the Organisation's vision, strategy, plans, financial position, achievements and performance.

3.1.31 YPO takes an active and planned approach to meet its responsibility to employees by developing clear and effective channels of communication including regular Organisation wide updates, team and group briefings and regular discussions with Trade Unions.

4 Review of Effectiveness

4.1.1 YPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is managed by the work of Members, Directors and other managers within the Organisation who have responsibility for the development and maintenance of the governance environment and is informed by reports and comments made by internal and external auditors and other review agencies and inspectorates. Maintaining and reviewing the effectiveness of the system of governance was achieved through the following:

4.1.2 Wakefield Metropolitan District Council's Internal Audit team is responsible for providing an independent and objective opinion on the control environment within YPO. Their audit plan and subsequent findings are reported to the Directors of YPO, the Management Committee and the Audit Sub-Committee.

4.1.3 Wakefield Council Internal Audit's overall opinion on the systems of internal control at Yorkshire Purchasing Organisation (YPO) during 2012 is as follows:

"From the work undertaken by Internal Audit during 2012, key controls were found to be adequate to manage associated risks to an acceptable level, with no significant errors, losses or omissions identified. Senior management within the organisation continued to strengthen the overall governance framework, including residual areas previously identified from audit work as requiring improvement. To this end significant further progress has been made in updating a number of key policies and procedures, acknowledging that this is an ongoing process. Consequently there are no new key control improvements requiring including in section 5 of the 2012 AGS based on the outcomes of Internal Audit Work."

4.1.4 In addition to reviews of effectiveness by WMDC Internal Audit, YPO is also subject to reviews by external auditors. YPO's external auditors during 2011 were the Audit Commission. Summarising the findings of their 2011 Audit the Audit Commission in June 2012 offered the following opinion:

“The organisation successfully closed down the 2011 accounts earlier while preparing accounts under International Reporting Standards for the first time and successfully produced draft statements and supporting working papers in line with the agreed timescales. The draft financial statements contained two material errors but these did not affect the organisations financial performance and financial position. I made recommendations about two matters arising from my work on the value for money conclusion to help the organisation strengthen its business planning and debt management arrangements.”

Following the Audit Committee I have:

. Issued an unqualified opinion on the organisations 2011 financial statements on 23 April which was two months earlier than last year; and

. Concluded that there are no matters arising from my value for money work that I need to report.

4.1.5 In 2012 the Management Committee received and approved a number of reports and policies along with agreeing the 2013 business plan and budget. Audit Sub-Committee and the Scrutiny Sub-Committee met regularly throughout the year to gain further assurances and to seek clarification on specific areas where necessary. The Member's Joint Consultative Committee (JCC) also met regularly through the year to discuss employee related topics.

4.1.6 The organisation held regular meetings with the Statutory Monitoring Officer (WMDC) to ensure compliance with legal requirements and to assist in the effective working relationship between YPO and the Lead Authority.

4.1.7 The strategic and operational risk registers were regularly updated throughout the year to ensure they accurately reflected the risks faced by the organisation and quarterly reports were issued on this subject to Board and Audit Sub-Committee.

4.1.8 A health and safety annual improvement plan was agreed at the Health and Safety Committee meeting in 2012. Updates as to the progress made against the plan were provided to the Health and Safety Committee monthly and the Board quarterly. A health and safety audit was carried out by YPO's insurers with any issues identified rectified in the agreed timescales.

4.1.9 The Member and Officer training programme was carried out throughout 2012. YPO Members are required to comply with the Code of Conduct for their Member Authority; we are unaware of any breaches of this Code by YPO Members.

4.1.10 In response to the Privacy and Electronic Communications (EC Directive) (Amendment) Regulations 2011 during 2012 YPO adopted the revised guidelines issued by the Information commissioners Office (ICO) in how it tracks the use of cookies on the www.ypo.co.uk website.

5 Significant Governance Issues

5.1 In considering the significant internal control issues contained within the 2011 AGS, it is noted that the following enhancements have been made during 2012: The references below – e.g. AGS 2011 5.1.3, refer to the pertinent section of the 2011 AGS report.

5.1.1 AGS 2011 5.1.3: YPO will be determining in 2011 the value of securing ISO 14001 (Environmental Management Systems) accreditation.

YPO achieved this standard in June 2012

5.1.2 AGS 2011 5.1.5: Review of effectiveness and value of Service Level Agreements with Wakefield MDC.

The service Level Agreements for Finance, Audit & HR have been reviewed during 2012. The Transport Service Level Agreement is under on-going review.

5.1.3 AGS 2011 5.2.4: Continue the ongoing training and development of employees with a specific focus on raising awareness of the Employee Code of Conduct, Gifts and Hospitality Protocol, Declarations of Interest Policy and Anti-Fraud and Bribery Policy.

Training for all staff has been completed for these areas during 2012.

5.1.4 AGS 2011 5.2.5: Improve existing procedures to incorporate the monitoring of business use insurance for private car users.

The mileage claim form has been reviewed and a reminder of requirement for business insurance issued to all employees and senior managers

5.2 A number of issues referred to in the 2011 AGS have been partially actioned during 2011 and will be further progressed during 2013, being:

5.2.1 AGS 2011 5.1.1: Developing a corporate social responsibility plan which will include the economic role of YPO and developing YPO's good neighbourliness and developing ethical standards.

A Sustainable Procurement Policy has been developed during the year and the board signed a statement of intention in relation to corporate social responsibility. A project will continue throughout 2013 to develop a corporate social responsibility policy which will include the economic role of YPO and developing YPO's good neighbourliness and developing ethical standards.

5.2.2 AGS 2011 5.1.2: Quality Standards (ISO 9001): YPO was committed to securing this standard by December 2010. This has not been achieved and in 2011 YPO will be assessing this particular standard and other quality standard to determine the value to YPO of accredited quality management systems.

A Quality Assurance and Compliance Manager, appointed in July, presented a report to Audit Sub-Committee in October. This included an initial assessment of the needs of YPO in relation to Quality Management Systems and quality accreditation. A Quality Policy was agreed as a basis for building a Quality Management System (QMS), but decision whether to seek accreditation for the QMS has been deferred until the appropriate systems are in place. This is planned for mid 2014.

5.2.3 AGS 2011 5.1.4: Increase the Organisations knowledge of product liability, especially in relation to own brand products and low cost country sourcing.

A procedure is under development for the introduction of new products. In addition a tender is being produced for factory audit, product testing and pre-shipment inspection of globally-sourced products, in which, product liability will be a major consideration.

5.2.4 AGS 2011 5.1.6: As recommended in the Audit Commission's Annual Letter, YPO will make available to the public, information about the roles and responsibilities of the Board of Directors and the Management Committee of YPO (Audit Commission recommendation R4).

YPO has carried out a gap analysis to identify information which will be proactively published on the website to aid compliance with the Freedom of Information Act and Environmental Information Regulations. Part of this information includes the roles and responsibilities of the Board; information on the role of the Management committee is currently available on the YPO website.

5.2.5 AGS 2011 5.2.1: Address any governance issues arising from consideration of the completed 2011 Assurance Statements, not being dealt with as part of progressing issues recorded in 5.1 above.

Progress made against issues raised in the 2011 Assurance Statement is detailed in sections 5.1 and 5.2 of the 2012 AGS.

5.2.6 AGS 2011 5.2.2: Fully embed the risk management process within the organisations business planning process and make the links between the organisations strategic and operational risks more clear.

The Strategic and Operational Risk Registers have been reviewed during 2012 and now utilise the FIRM (Financial, Infrastructure, Reputational, Marketplace) risk classification system as well as clearly stating the strategic objective to which the risk relates. Risks and associated controls are identified during the business planning process however it is recognised that this is an area that requires further development in 2013.

5.2.7 AGS 2011 5.2.3: Review the organisations existing business continuity arrangements in order to improve the organisations resilience..

A Business Continuity Policy, Risk Assessment and Incident Management Plan have been produced during 2012. Formal training has been provided to members of the Senior Management Team. ICT are continuing to prepare a business case for the provision of disaster recovery facilities.

5.3 The AGS and supporting documentation provides evidence of improvements in YPO's governance arrangements in 2012. In looking towards 2013 and beyond it is acknowledged that there are a number of new initiatives to be implemented / embedded to further enhance the existing governance environment in addition to those recorded in 5.2 above. These key issues are:

5.3.1. Address any governance issues arising from consideration of the completed 2012 Assurance Statements, not being dealt with as part of progressing issues recorded in 5.2 above.

5.3.2. It is recognised that the processes for identifying changes to relevant legislation require strengthening.

5.3.3. As recognised in the Audit Commission's 2011 Annual Letter R3 , "Ensure that debt management procedures are effective and appropriate to manage the risks of a changing customer base". The debt situation is closely monitored and the process for evaluating credit risk will be further strengthened during 2013 following a review of current procedures for account creation.

5.3.4. As recognised in the Audit Commission's 2011 Annual Letter R5, "Ensure the cost and resource implications for all parts of the Organisation are understood in all business planning decisions". Further work has been completed around understanding the relationships between different systems and the impact of business decisions on associated systems during 2012, these findings will be further developed in business planning processes during 2013.

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

Simon Hill
Managing Director

Cllr. Les Shaw
Chairman YPO Audit Sub Committee



cutting through complexity™

Report to those charged with governance (ISA 260) 2012

Yorkshire Purchasing Organisation

April 2013



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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. Trevor 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, telephone (minicom) 020 7630 0421.

This report summarises:

- the key issues identified during our audit of the Yorkshire Purchasing Organisation's (the Organisation's) financial statements for the year ended 31 December 2012; and
- our assessment of the Organisation's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

We conduct our audit of the financial statements in four phases:



This report focuses on the final two stages: substantive procedures and completion. It also includes any findings in respect of our control evaluation that we identified during our interim audit.

Our onsite final accounts visit took place between 13 February 2012 and 26 February 2012. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

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

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have completed our work in respect of the 2012 VFM conclusion. This included identifying any significant risks following the completion of our risk assessment review and reviewing the Organisation's Annual Governance Statement.

This report

This report is prepared in accordance with ISA 260 'Communication of audit matters to those charged with governance'.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2012 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

We have included recommendations in Appendix 1.

We have also reviewed your progress in implementing the Audit Commission's prior year recommendations and have included this in Appendix 2.

Acknowledgements

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

Section two
Headlines



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

<p>Proposed audit opinion</p>	<p>We finished our on site work on 26 February 2013. The Organisation's accounts approval timetable means that we cannot complete our audit until the revised accounts and representation letter are approved at the Audit Sub Committee on 26 April 2013. We anticipate issuing an unqualified opinion on the financial statements shortly after this meeting. We will also report that the wording of your Annual Governance Statement accords with our understanding of the Organisation and its governance arrangements.</p>
<p>Audit adjustments</p>	<p>We have identified one audit difference that, while not material, does need to be highlighted to those charged with governance. This relates to recognising in the accounts direct supply income of £925k and expenditure of £812k, where the supplier invoice has been received but not processed at the year end. The treatment is consistent with previous years. The impact of this adjustment would be to improve the financial performance of the Organisation by £113k. Management have decided not to amend the financial statements for this issue.</p>
<p>Critical accounting matters</p>	<p>We have worked with officers throughout the year to discuss specific risk areas raised in our External Audit Plan 2012. The Organisation addressed these issues appropriately.</p>
<p>Accounts production and audit process</p>	<p>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. The Organisation has made progress in implementing the recommendations in the Audit Commission's 2011 <i>Annual Governance Report</i> relating to the financial statements.</p>
<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Post balance sheet events review; and ■ Final review of the updated financial statements. <p>Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Organisation's financial statements.</p>
<p>VFM conclusion</p>	<p>We have concluded that the Organisation has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 April 2013.</p>

Section three – financial statements Proposed opinion and audit differences



We have identified one audit difference that is not clearly trivial.

Management have decided not to amend the financial statements for this difference.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate completing our audit and issuing an unqualified opinion on the financial statements by 30 April 2013.

Audit differences

Auditing standard ISA 260 requires us to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

There are no material misstatements, but we have identified one audit difference that is significant. Management have decided not to amend the financial statements for this difference which is detailed below.

Direct supply invoices

As well as stock items from the warehouse, the Organisation sells direct supply items: larger items which are delivered directly from the supplier to the customer. These represent approximately 30% of invoiced turnover.

The Organisation recognises the income and expenditure relating to these items in its accounts when the invoice is received from the supplier and matched to the customer order in DAWN. Most invoices match automatically but, where there are differences between the order and the invoice, manual intervention is required.

Management have made the judgement that the outstanding balance of invoices requiring manual intervention at the year end should not be accrued as:

- some invoices will be duplicates or contain errors; and
- those that do correctly relate to 2012 do not have a material impact on the accounts.

This treatment is consistent with previous years.

We obtained a list of direct supply supplier invoices which relate to sales made in 2012 but processed in 2013 up to 21 February 2013. To calculate the related income we have applied the average direct supply mark up.

The understatement of income, expenditure, debtors and creditors resulting from the fact that no accrual has been made from these invoices is shown in the tables below:

Comprehensive Income and Expenditure Statement	
£000	Impact
Invoiced turnover	925
Cost of Sales	(812)
Surplus on provision of service	113

Balance Sheet as at 31 December 2012	
£000	Impact
Short term debtors	925
Short term creditors	(812)
Net worth	113
General Fund	113
Total reserves	113

This is a non-trivial under accrual of both income and expenditure, and corresponding debtors and creditors.

In addition, we note that the invoices relating to 2012 still unmatched as at 22 February 2013 totalled £50k. This allows us to conclude that the maximum possible understatement is less than audit materiality.

The wording of your Annual Governance Statement accords with our understanding.

Presentational differences

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2011/12 (‘the Code’)*. We understand that the Organisation will be addressing these as appropriate.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have worked with officers throughout the year to discuss specific risk areas.

We did not identify any 'significant risks' as defined by the auditing standards, but we have highlighted two audit risks which we have obtained assurance over and report our findings to the Organisation.

The Organisation addressed the issues appropriately.

In our Audit Plan 2012, presented to you in November, we identified the key risks affecting the Organisation's 2012 financial statements. We have now completed our testing of these areas and set our final evaluation following our substantive work. The table below sets out detailed findings for each risk.

Key audit risk	Issue	Findings
	<p>The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 Code also introduces a requirement to disclose the number and cost of exit packages.</p> <p>The Organisation needs to review and appropriately address these changes in its 2012 financial statements.</p>	<p>The Organisation has carried out a review and concluded that it does not hold any heritage assets. This is consistent with our understanding of the activities of the Organisation and our observations from audit and stock take visits.</p> <p>The Organisation has included the required disclosures of exit packages in the notes to the accounts. We have reviewed all accounting entries and disclosures and are satisfied that the 2011/12 Code has been implemented correctly.</p>
	<p>Income from contract rebates relies on periodic usage schedules provided by the supplier. Because the value included in the accounts includes a material estimate for the final period of the year, there is a risk that it is inaccurate or has been manipulated.</p>	<p>We tested a sample of contract rebate income during our final accounts visit and concluded that the figures included in the accounts are free from material misstatement.</p>

Section three – financial statements Accounts production and audit process



Management have continued to improve the quality of the accounts and supporting working papers.

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

The Organisation has made progress in implementing the recommendations in the Audit Commission's 2011 Annual Governance Report relating to the financial statements.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	<p>The Organisation has good financial reporting processes in place and this has helped to ensure a smooth audit process for the year ended 31 December 2012.</p> <p>We have some concerns around the calculation of the allowance for bad debts and have made two recommendations for improvement. These are outlined in Appendix 1.</p> <p>Otherwise we consider that accounting practices are appropriate.</p>
Completeness of draft accounts	<p>We received a complete set of draft accounts well in advance of the audit commencing on 14 February 2013.</p>
Quality of supporting working papers	<p>We provided a list of required working papers in December 2012 and discussed these with the Financial Accountant.</p> <p>The quality of working papers provided was good.</p>
Response to audit queries	<p>Officers resolved audit queries promptly.</p>

IT environment

As part of our work to understand the Organisation, we carried out a review of the IT environment and tested the general IT controls. Our work identified one minor weakness in IT controls. Details are included in Appendix 1.

Prior year recommendations

The Organisation has made progress in implementing the recommendations in the Audit Commission's 2011 Annual Governance Report relating to the financial statements. Appendix 2 provides further details.

Section three – financial statements Completion



We confirm that we have complied with requirements on objectivity and

independence in relation to this year's audit of the Organisation's financial statements.

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

Once we have finalised our opinion and conclusion we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of the Yorkshire Purchasing Organisation for the year ending 31 December 2012, we confirm that there were no relationships between KPMG LLP and the Yorkshire Purchasing Organisation, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer, a draft of which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Organisation's 2012 financial statements.

Section four – VFM conclusion

VFM conclusion



Our VFM conclusion considers how the Organisation secures economy, efficiency and effectiveness in its use of resources.

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

We have concluded that the Organisation has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

- For 2012 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.
- The key elements of the VFM audit approach are summarised in the diagram below.

We are not aware of any relevant work of other relevant regulatory bodies or inspectorates and we have not identified any significant risks requiring specific risk-based work. Consequently our work comprised a review of your AGS

As part of this review we considered:

- your progress in addressing the recommendations included in the 2011 Annual Governance Report;
- any changes to your arrangements in 2012.

Conclusion

We have concluded that the Organisation has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

There is still progress to be made in addressing the recommendations arising from the VFM work done by the Audit Commission in previous years and this is detailed in Appendix 2.



Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>
No.	Risk	Issue and recommendation
1	2	<p>The financial statements do not include an accrual for direct supply income and expenditure where the supplier invoice is received but not processed before the year end.</p> <p>The value of direct supply invoices relating to 2012 but processed (and accounted for) in 2013 is £812k. Applying the average direct supply mark up, the corresponding income would be £925k.</p> <p>The error is large, representing over 2% of the direct supply cost of sales for 2012, and applying the average mark up would increase the surplus for the year by 113k.</p> <p>Recommendation</p> <p>All income and expenditure should be accounted for in the year to which it relates if material. In the 2013 accounts, the Organisation should include an accrual for the direct supply income and expenditure relating to supplier invoices received but not processed.</p> <p>Management should put arrangements in place to allow them to identify the relevant transactions. This may mean that management need to amend the financial statements between the draft version provided for audit and the final audited version approved by Audit Committee as more information becomes available.</p>
Management response / responsible officer / due date		
<p>Management Response</p> <p>Management have taken the view that the suggested treatment is technically correct however the figure is immaterial to understanding the performance of the Organisation representing 0.72% of turnover and includes purchases relating to the phonics project of £200k which are deemed as not normal trading and will not affect the distributable amount.</p> <p>This issue will be reviewed for materiality as part of future year end closedowns and a method of accurately capturing this data for year end purposes will be assessed as part of the planned financial system developments in 2013/14.</p> <p>Responsible Officer</p> <p>Ian Knowles (Corporate Director)</p> <p>Due Date</p> <p>Materiality review 31 December 2013 System changes 31 December 2014</p>		

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	<p>The Organisation does not have a formal documented policy for calculating the allowance for bad debts and officers have had difficulty in articulating the approach to calculating the allowance without detailed questions from the audit team.</p> <p>The amount included in the 2012 financial statements contains no allowance for any debts younger than 19 months.</p> <p>Recommendation</p> <p>Produce a formal documented policy for the allowance for bad debts which takes into account both debts which are uncollectable because the customer is unable to pay and debts which are uncollectable because corrective action is required from the Organisation. As part of this process consider whether an allowance for debts younger than 19 months is required.</p>	<p>Management Response</p> <p>A formal debt policy which includes the policy for calculating bad and doubtful debts for month and yearend purposes will be produced. This will include all relevant risks to debt and the points raised in this report.</p> <p>Responsible Officer</p> <p>Ian Knowles (Corporate Director)</p> <p>Due Date</p> <p>30 September 2013</p>

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	<p>②</p>	<p>Although improving, the level of aged debt remains high with £1.88 million in trade debtors over 90 days old (more than 15% of the total).</p> <p>The changing nature of the Organisation's customers means that it is increasingly important that the Organisation sets and applies clear policies and procedures for the collection of unpaid debts.</p> <p>Recommendation</p> <p>Produce a formal, documented and agreed debt collection and escalation policy.</p> <p>Apply this policy consistently.</p> <p>The policy should ensure that debts are investigated and chased promptly and should include appropriate escalation procedures to recover unpaid debts. The legal status of the Organisation means that Wakefield MDC will need to take any legal action on their behalf and the relevant portions of the policy should be agreed with officers at the Council.</p>	<p>Management Response</p> <p>The Organisation has a debt procedure which has been applied consistently since June 2012 leading to the reduction in older as debt mentioned in the report however acknowledges that this is not supported by a formal policy.</p> <p>The Organisation has never taken legal action to recover debt but acknowledges that the change in its markets have increased the potential for this to be a higher probability in the future.</p> <p>To this end discussions around the process to be adopted in the eventuality of legal action being required have been held with both the lead authority and independent legal advice has been sought.</p> <p>A formal debt policy which includes all relevant risks to debt and the points raised in this report will be produced.</p> <p>Responsible Officer</p> <p>Ian Knowles (Corporate Director)</p> <p>Due Date</p> <p>30 September 2013</p>

Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	3	<p>No user access reviews are currently performed by staff for Navision or for Dawn/ISYS. User access reviews allow staff to verify the appropriateness of an employee's systems access rights in comparison to their job role and enables discrepancies to be identified.</p> <p>During our audit, we tested a sample of 5 users on Navision to assess whether access rights appeared appropriate in relation to job role. As a result of this testing, we identified two instances where staff in the Finance Department had been granted an access permission on Navision that Management were unaware of (the right to post journals). Although we confirmed that these staff had not used their access right in 2012, our testing nonetheless highlighted the importance of user access reviews for monitoring purposes.</p> <p>Recommendation</p> <p>Introduce user access reviews for Navision, Dawn and ISYS. These reviews should be performed on at least an annual basis.</p>	<p>Management Response</p> <p>User access reviews will be completed at least annually by a senior manager and a record maintained of the review.</p> <p>Responsible Officer</p> <p>Ian Knowles (Corporate Director)</p> <p>Due Date</p> <p>31 December 2013</p>

Appendix 2: Follow up of prior year recommendations

The Organisation has implemented the majority of the recommendations in the Audit Commission's 2011 *Annual Governance Report*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in the Audit Commission's 2011 *Annual Governance Report* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	7
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	3

No.	Priority	Issue and recommendation	Management Response	Status as at February 2013
1	High	<p>The level of trade debtors in the balance sheet doubled between 2009 and 2011, and at 31 December 2011 was £10.9 million. The trade debtors over 90 days old represented 20 per cent of the total.</p> <p>Recommendation</p> <p>Ensure that debt management procedures are effective and appropriate to manage the risks of a changing customer base.</p>	<p>YPO will ensure there is a robust procedure in place to manage risks to the Organisations debt position.</p>	<p>The percentage of trade debtors over 90 days old has decreased to 15%. Older debts are being managed down but there is still progress to be made.</p> <p>Management Response February 2013</p> <p>A procedure was introduced in June 2012 leading to the reduction in older debt and the sales ledger team have been given performance appraisal targets of no debt over 12 months old by the end of 2013.</p>

Appendix 2: Follow up of prior year recommendations

The Organisation has implemented the majority of the recommendations in the Audit Commission's 2011 *Annual Governance Report*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Priority	Issue and recommendation	Management Response 2012	Status as at February 2013
2	High	<p>Changes to the public sector will have an impact on the Organisation's customer base, for example, an increase in academies and social enterprises, and effective debt collection procedures will be important in working with customers outside local authorities.</p> <p>Recommendation</p> <p>Ensure that management information is accurate, timely and used to respond effectively to changes in customer behaviour.</p>	<p>YPO will ensure management information is timely, accurate, reliable and fit for purpose.</p>	<p>Information is available to identify and track aged debt overall, and the top 50 aged debtors are reported each month to the Board. Higher risk groups such as academies are not separately identified limiting the ability to understand patterns of behaviour of specific customer groups.</p> <p>Management Response February 2013</p> <p>As part of the ICT strategy business intelligence(BI) and customer relationship management (CRM) was raised to high priority and to be implemented in 2013. Further developments are planned which will allow a more comprehensive collection of relevant market data and analysis of trends.</p>

Appendix 2: Follow up of prior year recommendations

The Organisation has implemented the majority of the recommendations in the Audit Commission's 2011 *Annual Governance Report*. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Priority	Issue and recommendation	Management Response 2012	Status as at February 2013
3	Medium	<p>The Organisation has yet to formally consider what information its stakeholders (including the public) want and how it can meet those needs while preserving the commercial sensitivity of some of its information.</p> <p>Recommendation</p> <p>Consider what information the public wants and how the Organisation can meet those needs while complying with equalities legislation.</p>	<p>YPO will consider public accessibility as part of initiatives on corporate social responsibility.</p>	<p>The Organisation has adopted a formal policy on accessibility for public information in 2012. It considers the needs of the public in producing individual documents but has not undertaken a high level review of what information the public wants.</p> <p>Management Response February 2013</p> <p>A policy on freedom of information and public information has been compiled and is awaiting board approval.</p>

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

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

Uncorrected audit differences

The following table sets out the significant audit difference identified by our audit of the Yorkshire Purchasing Organisation's financial statements for the year ended 31 December 2012. Management have decided not to amend the financial statements for this audit difference.

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
1	Dr Cost of Sales £812k	-	Dr Debtors £925k			Under accrual of direct supply income and expenditure where invoices have been received but not processed at 31 December 2012.
	Cr Invoiced Turnover £925k	-	Cr Creditors £812k	-	Cr General Fund £113k	
	Cr £113k	-	Dr £113k	-	Cr £113k	Total impact of adjustments

Appendix 4: Declaration of independence and objectivity



The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Organisation.

Requirements

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

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

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

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity (continued)

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

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

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts.

Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

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

Auditor declaration

In relation to the audit of the financial statements of the Yorkshire Purchasing Organisation for the financial year ended 31 December 2012, we confirm that there were no relationships between KPMG LLP and the Yorkshire Purchasing Organisation, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 5: Draft management representation letter

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the Yorkshire Purchasing Organisation (“the Organisation”), for the year ended 31 December 2012, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Yorkshire Purchasing Organisation as at 31 December 2012 and of its income and expenditure for the year then ended;
- iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

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

Financial statements

1. The Organisation has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Yorkshire Purchasing Organisation as at 31 December 2012 and of its income and expenditure for the year then ended;
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

2. The financial statements have been prepared on a going concern basis.
 3. Measurement methods and significant assumptions used by the Organisation in making accounting estimates, including those measured at fair value, are reasonable.
 4. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.
 5. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.
- These misstatements have been discussed with those charged with governance within the Organisation and the reasons for not correcting these items are as follows:

- [reason]

Information provided

6. The Organisation has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Organisation for the purpose of the audit; and
 - unrestricted access to persons within the Organisation from whom you determined it necessary to obtain audit evidence.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Appendix 5: Draft management representation letter (continued)

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Information provided

8. The Organisation acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Organisation acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. The Organisation has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. The Organisation has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Organisation and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Organisation financial statements communicated by employees, former employees, analysts, regulators or others.
11. The Organisation has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Organisation has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

12. On the basis of the process established by the Organisation and having made appropriate enquiries, the Organisation is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

13. The Organisation further confirms that:

- a) all significant retirement benefits, including any arrangements that:
 - are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,have been identified and properly accounted for; and
- b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26 April 2013.

Yours faithfully,

[Chair of the Audit Committee], [S151 Officer], [Corporate Director]



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Our Ref: KS/RT
Date: 26th April 2013

KPMG
Stephen Clark
Director
KPMG
1 The Embankment
Neville Street
Leeds
LS1 4DW

Dear Sirs

Re – Audit of the Financial Statement

This representation letter is provided in connection with your audit of the financial statements of the Yorkshire Purchasing Organisation (“the Organisation”), for the year ended 31 December 2012, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Yorkshire Purchasing Organisation as at 31 December 2012 and of its income and expenditure for the year then ended;
- ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

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

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

Financial statements

1. The Organisation has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - give a true and fair view of the financial position of the Yorkshire Purchasing Organisation as at 31 December 2012 and of its income and expenditure for the year then ended;
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

2. The financial statements have been prepared on a going concern basis.
3. Measurement methods and significant assumptions used by the Organisation in making accounting estimates, including those measured at fair value, are reasonable.
4. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.
5. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter. These misstatements have been discussed with those charged with governance within the Organisation and the reasons for not correcting these items are as follows:
 - The under accrual of direct supply income and expenditure where invoices have been received but not processed at 31 December 2012 are not material to the statement of accounts either in terms of understanding performance or the overall financial standing of the Organisation.

Information provided

6. The Organisation has provided you with:
 - Access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from the Organisation for the purpose of the audit; and
 - Unrestricted access to persons within the Organisation from whom you determined it necessary to obtain audit evidence.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Information provided

8. The Organisation acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Organisation acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
9. The Organisation has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. The Organisation has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Organisation and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Organisation's financial statements communicated by employees, former employees, analysts, regulators or others.

11. The Organisation has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Organisation has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

12. On the basis of the process established by the Organisation and having made appropriate enquiries, the Organisation is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

13. The Organisation further confirms that:

a) All significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved,

Have been identified and properly accounted for; and

b) All settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 26 April 2013.

Yours sincerely

Councillor Shaw
YPO Audit Sub Committee Chair

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	②	<p>The financial statements do not include an accrual for direct supply income and expenditure where the supplier invoice is received but not processed before the year end.</p> <p>The value of direct supply invoices relating to 2012 but processed (and accounted for) in 2013 is £812k. Applying the average direct supply mark up, the corresponding income would be £925k.</p> <p>The error is large, representing over 2% of the direct supply cost of sales for 2012, and applying the average mark up would increase the surplus for the year by 113k.</p> <p>Recommendation</p> <p>All income and expenditure should be accounted for in the year to which it relates if material. In the 2013 accounts, the Organisation should include an accrual for the direct supply income and expenditure relating to supplier invoices received but not processed. Management should put arrangements in place to allow them to identify the relevant transactions. This may mean that management need to amend the financial statements between the draft version</p>	<p>Management Response</p> <p>Management have taken the view that the suggested treatment is technically correct however</p> <ul style="list-style-type: none"> the figure is immaterial to understanding the performance of the Organisation representing 0.72% of turnover and includes purchases relating to the phonics project of £200k which are deemed as not normal trading and will not affect the distributable amount. <p>This issue will be reviewed for materiality as part of future year end closedowns and a method of accurately capturing this data for yearend purposes will be assessed as part of the planned financial system developments in 2013/14.</p> <p>Responsible Officer</p> <p>Ian Knowles (Corporate Director)</p> <p>Due Date</p> <p>2013 Yearend for review, 2014 yearend for system changes.</p>

		provided for audit and the final audited version approved by Audit Committee as more information becomes available.	
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YPO
AUDIT SUB COMMITTEE
TO BE HELD ON
26TH APRIL 2013

TITLE: PROGRESS ON THE 2013 INTERNAL AUDIT PLAN

REPORT OF: THE s151 OFFICER

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 January to March 2013.

2 BACKGROUND INFORMATION

- 2.1 The report attached at Appendix A records details of audit work undertaken, and reports issued, between January and March 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 2012 Plan 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 – WAKEFIELD COUNCIL)

CONTACT OFFICER: (CARL TWEED, AUDIT MANAGER – WAKEFIELD COUNCIL)

Telephone No: 01924 306054
E-mail address: c.tweed@ypo.co.uk

Internal Audit Progress Report

January – March 2013

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

CONTACT OFFICER: Carl Tweed, Audit Manager
Corporate Services
City of Wakefield Metropolitan District Council
County Hall
Wakefield WF1 2QW
Tel. no. 01924 306054
Email address: ctweed@wakefield.gov.uk

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 January to March 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 2012 AUDIT PLAN

2. 2 Internal Audit reports have been issued since the last Internal Audit Progress Report was discussed at the YPO Audit Sub-Committee on the 8th February 2013.

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
Strategic Risks – Risk Management Process – 21/02/13	<p style="text-align: center;">Fully Effective</p> <p>Key controls were found to be in place and operating in line with YPO’s Risk Management Policy and Strategic Framework.</p> <p>However, one key enhancement to existing controls was identified, namely the need for additional control measures to be either recorded on the strategic risk register, or cross-referenced to where details of these are recorded (for example, Board Minutes), sufficient to allow the Board to monitor delivery. Where risks are fully mitigated, this should be recorded and cross-referenced in a similar manner. Existing control measures in place also require periodic reassessment to ensure that these remain in place and operating effectively.</p>	The action plan is not due to be returned until the 18 th April 2013.
Anti-Fraud And Bribery Arrangements – 06/03/13	<p style="text-align: center;">Mostly Effective</p> <p>No fraud risk assessment has been undertaken.</p> <p>Not all staff have taken part in</p>	The action plan is not due to be returned until the 3 rd May 2013.

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
	<p>anti-fraud and bribery training.</p> <p>Financial procedure Rules and Standing Orders Relating To Contracts have not been updated to take account of bribery legislation.</p> <p>Declarations of Interest have not been obtained from all buyers.</p> <p>“Offline” tenders are not recorded accurately; the time of receipt being omitted from the manual record held.</p> <p>There is no central record maintained which shows where a late tender has been accepted, with the reasons for consideration / acceptance.</p>	

3. 2 Internal Audit reports were issued during January 2013:

- Data Quality – 07/01/13
- Supply Chain Operations – 18/01/13

These were discussed at the YPO Audit Sub-Committee on the 8th February 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 was ongoing during February and March 2013:

- 4.1 Improving management information capability. (A new system / initiative being developed).
- 4.4 Customer Relationship Management development. (A new system / initiative being developed).
- 4.5 Framework Contracts.
- 4.8 Provision of support to YPO Committee function.
- 4.9 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 March 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 3 client surveys were issued following completion of the 4 audit assignments referred to in paragraphs 2 and 3. 1 was completed and returned, with an overall opinion of '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 APRIL TO JUNE 2013

6. The main emphasis of our work for the period April to June 2013 will be:
 - 6.1 Completing the audit on Framework Contracts.
 - 6.2 Ongoing involvement in the 2 new systems / initiatives (improving management information capability; Customer Relationship Management development).
 - 6.3 Sales; IT Application Controls; Marketing Follow Up. (Timing of these audits to be confirmed with YPO senior management).

OUTSTANDING REPLIES TO AUDIT REPORTS

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



YPO
AUDIT SUB COMMITTEE
TO BE HELD ON
26TH APRIL 2013

TITLE: RISK MANAGEMENT UPDATE

REPORT OF: THE CORPORATE DIRECTOR

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 January 2013 and Audit Sub Committee in February 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 first 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 first quarter of 2013.

5. STRATEGIC IMPLICATIONS

- 5.1 None.

6. FINANCIAL IMPLICATIONS

- 6.1 None.

7. LEGAL IMPLICATIONS

- 7.1 None.

8. EQUALITY IMPLICATIONS

8.1 None.

9. RISK IMPLICATIONS

9.1 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.

10. RECOMMENDATION (S)

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

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**Risk Management Policy
&
Strategic Framework
2013**

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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 through 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'.

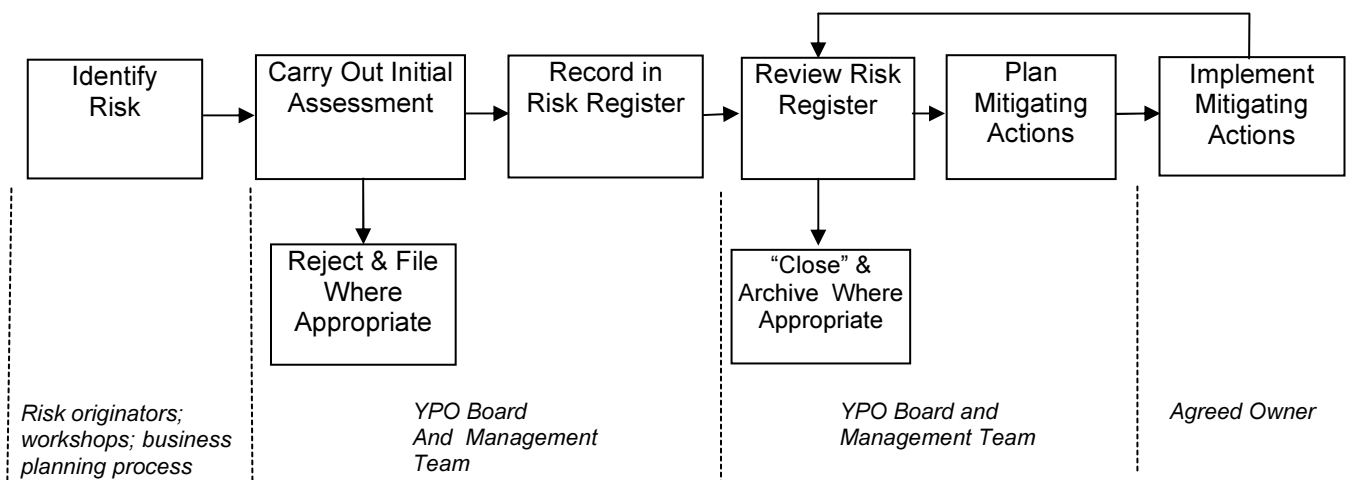
5.6 Officers carrying out risk assessment and recording risks in the organisations risk register should consider the risks associated with the categories above and record the risk alongside the risk classification in the relevant risk register.

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

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

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

The Buying Power behind the Public Sector



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