

Chief Executive

Merran McRae – Chief Executive

Your Ref.  
Our Ref

Please Reply To **Kayley Sykes**  
Telephone No (01924) 834912  
Email kayley.sykes@ypo.co.uk  
Date 15 March 2018

Town Hall, Wood Street, Wakefield, West Yorkshire WF1  
2HQ  
T 01924 305100; E chiefexec@wakefield.gov.uk  
Typetalk calls welcome

**To: Members of the Management Committee of the Yorkshire Purchasing Organisation Joint Committee**

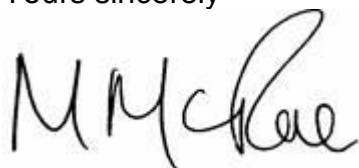
**Chief Executive of the Constituent Authorities (for information)**

Dear Councillor

**YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE MEETING  
– FRIDAY, 23 MARCH 2018**

You are invited to a meeting of the Management Committee of the Yorkshire Purchasing Organisation Joint Committee which is to be held at **10:30 am on Friday, 23 March 2018** at the **YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda detailed overleaf.

Yours sincerely



Merran McRae  
Secretary to the Joint Committee

**PLEASE NOTE:** A buffet lunch is to be provided at the conclusion of the meeting. Please contact Kayley on the details above if you have any dietary requirements.

**As a courtesy to colleagues will you please turn all electrical devices to silent prior to the start of the meeting.**

**YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE -  
Friday, 23 March 2018**

**AGENDA**

1. Members' Declaration of Interest.
2. Apologies for Absence.
3. To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.
4. To approve, as a correct record, the Minutes of the Management Committee meeting held on 24th November 2017. (Pages 1 - 5)
5. To approve, as a correct record, the Minutes of the Audit & Scrutiny Sub-Committee meeting held on 16th February 2018. (Pages 7 - 10)
6. To approve, as a correct record, the Minutes of the Executive Sub-Committee meeting held on 9th March 2018. (Pages 11 - 13)
7. Pre-Audit Statement of Accounts. (Pages 15 - 54)
8. Internal Audit Annual Report. (Pages 55 - 65)
9. Internal Audit Plan. (Pages 67 - 78)
10. Standing Orders and Financial Procedure Rules. (Pages 79 - 95)
11. Lead Authority Issues.
12. 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 for consideration of agenda items 13 to 15 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended."

**IN PRIVATE**

13. Dividend Distribution. (Pages 97 - 99)
14. Business Update. (Pages 101 - 104)
15. Report of Independent Director. (Pages 105 - 107)
16. Date and Time of Next Meeting.  
The next meeting will be held on 29<sup>th</sup> June 2018.



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**YORKSHIRE PURCHASING ORGANISATION MANAGEMENT COMMITTEE**

**Friday 24<sup>th</sup> November 2017**

**Present:**     **Barnsley MBC**  
                   Councillor Gardiner  
                   Councillor Barnard

**City of Bradford**  
                   Councillor Warburton  
                   Councillor Whiteley

**Calderdale**  
                   Councillor Scullion

**Doncaster**  
                   Councillor Cole

**Kirklees MC**  
                   Councillor Asif

**Knowsley MBC**  
                   Councillor Byron

**North Yorkshire CC**  
                   Councillor Mackenzie

**Rotherham MBC**  
                   Councillor Atkin

**St Helens MBC**  
                   Councillor Wiseman

**Wakefield MDC**  
                   Councillor Shaw

**Wigan MBC**  
                   Councillor Walker

<b>1:</b>	<b>Members Declaration of Interest</b>
	No declarations of interest were made by members.
<b>2:</b>	<b>Apologies for Absence</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Morris (Bolton), Sweeney (Wigan), Mercer (York), Nightingale (Doncaster), Williams (Knowsley), Johnson (St Helens), and Mather (Kirklees).

<b>3:</b>	<b>Independent Director Role</b>
	<p>A report was submitted to advise Members of the outcome of the Independent Director recruitment.</p> <p>The selection process took place on 21<sup>st</sup> September and the selection committee unanimously supported the application from Rob McWilliam.</p> <p><b>Resolved</b> – (1) That the content of the report be noted and Rob McWilliam was welcomed by the Management Committee.</p>
<b>4:</b>	<b>Urgent Items</b>
	<p>Chair announced to the Management Committee that sadly Councillor Darren Whitehead of Bolton MBC and a former member of the Management Committee Councillor Tony Corden of Doncaster MBC have recently passed away.</p> <p>The Management Committee held a minute's silence in respect of both Councillors.</p>
<b>5:</b>	<b>Minutes of the Management Committee – 23 June 2017</b>
	<b>Resolved</b> – (1) That the Minutes of the meeting of the YPO Management Committee held on 23 June 2017 be accepted as a correct record.
<b>6:</b>	<b>Minutes of the Executive Sub Committee – 22 September 2017</b>
	<b>Resolved</b> – (1) That the Minutes of the meeting of the Executive Sub Committee held on 22 September 2017 be accepted as a correct record.
<b>7:</b>	<b>Minutes of the Audit &amp; Scrutiny Sub-Committee – 15 September 2017 &amp; 3 November 2017</b>
	<p><b>Resolved</b> – (1) That the Minutes of the meeting of the Audit &amp; Scrutiny Sub Committee held on 15 September 2017 be accepted as a correct record.</p> <p>(2) That the Minutes of the meeting of the Audit &amp; Scrutiny Sub Committee held on 3 November 2017 be accepted as a correct record.</p>
<b>8:</b>	<b>Associate Member Proposals</b>
	<p>A report was submitted detailing applications for new Associate Memberships from: Police and Crime Commissioner for Merseyside, Telford and Wrekin Council, Harrogate Borough Council, North Yorkshire Police Service, Humberside Police Service and Buckinghamshire County Council.</p> <p>All the above applications fit into the key areas of focus for new Associate Members. Members raised a number of questions and detailed responses from the Executive Director (Paul Smith) were accepted.</p> <p><b>Resolved</b> – (1) That Police and Crime Commissioner for Merseyside, Telford and Wrekin Council, Harrogate Borough Council, North Yorkshire Police Service, Humberside Police Service, and Buckinghamshire County Council be accepted as Associate Members of YPO.</p>

<p><b>9:</b></p>	<p><b>YPO Pay Policy</b></p> <p>Consideration was given to a report of the Executive Director (Julie Wray) which asked Members to agree a pay policy for YPO in line with statutory requirements to comply with the 2011 Localism Act.</p> <p><b>Resolved</b> – (1) That the Pay Policy for 2017 be agreed.</p> <p>(2) That the information be published in line with the revised transparency requirements.</p>
<p><b>10:</b></p>	<p><b>Lead Authority Issues</b></p> <p>No Lead Authority issues were raised.</p>
<p><b>11:</b></p>	<p><b>Treasury Management</b></p> <p>Consideration was given to a report which requested approval for a new Investment Strategy for YPO to be implemented for 2018.</p> <p>Neil Warren of Wakefield Council explained the current process and the risks, and explained the proposal in relation to the Investment Strategy.</p> <p>The report was welcomed by Members, Members raised a number of questions and detailed responses from Neil Warren were accepted.</p> <p><b>Resolved</b> – (1) Members endorsed the requirement for an Investment Strategy.</p> <p>(2) Members approved the Investment Strategy and Service Level Agreement with Wakefield Council.</p> <p>(3) That the Terms of Reference for the Audit and Scrutiny Sub-Committee be added to as follows:          “To ensure that the Investment Strategy is being implemented as approved by the Management Committee in November 2017 and receive reports on the mid-year position and the final year end position.”</p> <p>(4) It was agreed that the SLA costs for Financial Services from Wakefield to be reported at the next Audit and Scrutiny Sub-Committee.</p>
<p><b>12:</b></p>	<p><b>Trading Agreement</b></p> <p>The Managing Director presented a report to advise Members of a planned review of the Trading Agreement between YPO Joint Committee and YPO Supplies Limited.</p> <p><b>Resolved</b> – (1) Members agreed to delegate the review of the Trading Agreement to the YPO Managing Director and Wakefield MBC Section 151 Officer.</p> <p>(2) Members agreed approval of the agreement to be delegated to the Chair of the YPO Management Committee.</p>

<b>13:</b>	<b>Exclusion of the Public &amp; Press</b>
	<b>Resolved</b> - That the public and press be excluded from the meeting during consideration of Agenda Items 14 to 19 on the grounds that they were likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.
	<b>IN PRIVATE</b>
<b>14:</b>	<b>Business Update - (Exempt)</b>
	Members considered the report of the Managing Director which provided Members with an update of the activities of the organisation since the previous Committee Meeting and gave an overview of the forthcoming activities and challenges.  Members raised several questions and detailed responses from Directors were accepted.  <b>Resolved</b> – (1) That the report be noted.
<b>15:</b>	<b>Report of the Independent Director – (Exempt)</b>
	Members considered the report of the Independent Director which detailed his observation of the organisation since June.  The Management Committee asked for their thanks to be recorded for Dennis Heywood’s work and support during his time as Independent Director.  Chair welcomed Rob McWilliam, Independent Director, and Rob shared his thoughts on his first few weeks at YPO.  <b>Resolved</b> - (1) That the report of the Independent Director and his observations be noted.
<b>16:</b>	<b>Financial Update – (Exempt)</b>
	A report of Wakefield Council’s Head of Internal Audit and Risk entitled Financial Update was reviewed by Members.  Members raised several questions and detailed responses from Internal Audit and Directors were accepted.  <b>Resolved</b> – (1) That Members noted the content of the report.
<b>17:</b>	<b>Cost Savings - (Exempt)</b>
	The Managing Director (Simon Hill) presented the Cost Saving Update to Members.  The report shared details of the Future Proofing Programme including no-pay actions, pay actions and growth actions.  <b>Resolved</b> – (1) That the report be noted.

<b>18:</b>	<b>Budget and Business Plan for 2018 - (Exempt)</b>
	<p>Executive Director Paul Smith presented to Members the Budget and Business Plan for 2018.</p> <p><b>Resolved</b> – (1) That the 2018 Budget and Business Plan is approved.</p>
<b>19:</b>	<b>Three Year Strategy - (Exempt)</b>
	<p>The Managing Director presented the report which detailed the current progress with completing a strategy document for 2018-2020.</p> <p>The strategy has been developed by the YPO Board with input from senior staff, key stakeholders, YPO Members, and from an analysis of the markets.</p> <p>The presentation supported the report and detailed the key areas of the 2018-2020 Three Year Strategy.</p> <p><b>Resolved</b> – (1) That Members approve the Three Year Strategy 2018-2020.</p> <p>(2) That the presentation would be circulated to Members.</p>
<b>20:</b>	<b>DATE AND TIME OF NEXT MEETING</b>
	<p>Chair noted that Julie Copley (former S151 representative) Wakefield MBC is leaving, he shared thanks and well wishes on behalf of the Management Committee.</p> <p><b>Resolved</b> – That the next meeting of the YPO Management Committee will be held on 23<sup>rd</sup> March 2018 at 10.30am.</p>

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**YORKSHIRE PURCHASING ORGANISATION**

**AUDIT & SCRUTINY SUB-COMMITTEE**

**FRIDAY, 16<sup>TH</sup> FEBRUARY 2018**

**Present:** The Chair: Councillor Warburton (Bradford)

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

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

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

<b>41.</b>	<b>EXCLUSION OF THE PUBLIC AND PRESS</b>
	<p><b>Resolved</b> – That the public and press be excluded from the meeting during consideration of agenda items 14 to 20 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p>
<b>42.</b>	<b>INTERNAL AUDIT ACTION UPDATE (EXEMPT – PARAGRAPH 3)</b>
	<p>Consideration was given to a report which provided an update as to the progress made towards actions resulting from internal audits completed at YPO, as part of the Annual Audit Plan by Wakefield Council’s Internal Audit.</p> <p><b>Resolved</b> – (1) That the progress made in implementing internal audit actions be noted.</p>
<b>43.</b>	<b>FINANCIAL PROCEDURE RULES &amp; STANDING ORDERS RELATING TO CONTRACTS (EXEMPT – PARAGRAPH 3)</b>
	<p>The Executive Director (Paul Smith) presented the Financial Procedure Rules &amp; Standing Orders Relating to Contracts.</p> <p>The Financial Procedure Rules &amp; Standing Orders Relating to Contracts have been reviewed to ensure compliance with the current law. Members were advised of minor changes.</p> <p><b>Resolved</b> – (1) That the revised Standing Orders for Contracts and Financial Procedure Rules, attached as Appendix 1, be approved and used by YPO.</p> <p>(2) That the Financial Procedure Rules &amp; Standing Orders Relating to Contracts are considered bi-annually moving forward unless there are any material changes.</p>
<b>44.</b>	<b>SLA COSTS FOR FINANCIAL SERVICES FROM WAKEFIELD COUNCIL (EXEMPT – PARAGRAPH 3)</b>
	<p>Consideration was given to the report of the Chief Finance Officer, which provided Members with a breakdown of costs made to the Lead Authority in the 2017 financial year for Finance Services.</p> <p>All services provided by the Lead Authority are provided in accordance with established Service Level Agreements.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>45.</b>	<b>IT PROGRAMME UPDATE (EXEMPT – PARAGRAPH 3)</b>
	<p>Consideration was given to the IT Programme Update report which provided Members with an update on the progress of the implementation of the ERP Business Case, and the associated risks.</p> <p>Members raised a number of questions and were satisfied with the responses given by Officers.</p>

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

**YORKSHIRE PURCHASING ORGANISATION EXECUTIVE SUB-COMMITTEE**

**9<sup>TH</sup> MARCH 2018**

**Present:** The Vice Chair: Councillor Walker (Wigan)  
 Councillors: Atkin (Rotherham), Mackenzie (North Yorkshire),  
 Whiteley (Bradford), Johnson (St Helens).

<b>60:</b>	<b>VICE - CHAIR'S INTRODUCTION &amp; WELCOME</b>
	The Vice-Chair, Councillor Walker, welcomed Members to the meeting.
<b>61:</b>	<b>APOLOGIES FOR ABSENCE</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Byron (Knowsley), Councillor Morris (Bolton), Councillor Mercer (City of York), Councillor Shaw (Wakefield).
<b>62:</b>	<b>MEMBERS DECLARATION OF INTEREST</b>
	No declarations of interest were made.
<b>63:</b>	<b>URGENT ITEMS</b>
	No items were discussed.
<b>64:</b>	<b>MINUTES – 22<sup>ND</sup> SEPTEMBER 2017</b>
	<b>Resolved</b> – (1) That the Minutes of the meeting of the YPO Executive Sub-Committee held on 22 <sup>nd</sup> September 2017 be approved as a true and accurate record.
<b>65:</b>	<b>LEAD AUTHORITY ISSUES</b>
	No Lead Authority issues were discussed.
<b>66:</b>	<b>FINANCIAL PROCEDURE RULES &amp; STANDING ORDERS RELATING TO CONTRACTS</b>
	The Executive Director (Paul Smith) presented the Financial Procedure Rules & Standing Orders Relating to Contracts.  The Financial Procedure Rules & Standing Orders Relating to Contracts have been reviewed to ensure compliance with the current law. Members were advised of minor changes.  <b>Resolved</b> – (1) That the revised Standing Orders for Contracts and Financial Procedure Rules, attached as Appendix 1 are noted by the Executive Sub Committee and recommended to Management Committee for approval.

	(2) That the Financial Procedure Rules & Standing Orders Relating to Contracts are considered bi-annually moving forward unless there are any material changes.
<b>67:</b>	<b>EARMARKED RESERVES SPEND</b>
	<p>The Executive Director (Paul Smith) presented the Earmarked Reserves Spend. The report details any over/under spend against funding and provides a breakdown of how the closing balance will be used.</p> <p>Members raised a number of questions in relation to the YPO fleet vehicles and what the plan is going forward. Members were satisfied with the responses provided by Officers.</p> <p><b>Resolved</b> – (1) That the Earmarked Reserves Spend be acknowledged and noted.</p>
<b>68:</b>	<b>EXCLUSION OF THE PUBLIC AND PRESS</b>
	<p><b>Resolved</b> – That the public and press be excluded from the meeting during consideration of Agenda Items 10 to 12 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972 as amended.</p>
<b>69:</b>	<b>2017 FINANCIAL PERFORMANCE REPORT (EXEMPT)</b>
	<p>The Executive Director (Paul Smith) presented the Financial Performance Report which provided Members with an overview of the organisation's performance in 2017.</p> <p>Thanks were given to the Board of Directors for the work undertaken throughout the year to achieve the bottom line that was achieved for 2017 in a very challenging market.</p> <p>Julie Wray (Executive Director) shared with Members the new performance measures that have been implemented in Operations.</p> <p><b>Resolved</b> – (1) That the Performance Report be acknowledged and noted.</p>
<b>70:</b>	<b>CREDIT CONTROL (EXEMPT)</b>
	<p>The Executive Director (Paul Smith) shared the Credit Control report which provided Members with an overview of the YPO Credit Control Process.</p> <p>The Credit Control Processes at YPO are highly effective and it was acknowledged the importance of an effective credit control cannot be understated.</p> <p>Members raised a number of questions in relation to the processes and</p>

	<p>Members were satisfied with the responses provided by Officers.</p> <p><b>Resolved – (1)</b> That the credit control report be noted.</p>
<b>71:</b>	<b>BUSINESS UPDATE (EXEMPT)</b>
	<p>The Executive Directors (Paul Smith, Jo Marshall &amp; Julie Wray) presented the Business Update which provided Members with an update on activities of the organisation since the last sub-committee and provided an overview on forthcoming activities and challenges.</p> <p><b>Resolved – (1)</b> That the report be noted.</p>
<b>72:</b>	<b>DATE AND TIME OF NEXT MEETING</b>
	<p><b>Resolved – (1)</b> That the next meeting of the YPO Executive Sub Committee is proposed for 8<sup>th</sup> June 2018 at 10.30am.</p>

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**YPO**  
**MANAGEMENT COMMITTEE**  
**TO BE HELD ON**  
**23<sup>RD</sup> MARCH 2018**

**SUBJECT: STATEMENT OF ACCOUNTS 2017**

**REPORT OF: FINANCIAL CONTROLLER**

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**1 PURPOSE OF REPORT**

1.1 To present the Pre-Audit Statement of Accounts for 2017.

**2 SUMMARY**

2.1 The Pre-Audit Statement of Accounts are prepared and are currently being audited.

**3 RECOMMENDATIONS**

3.1 That Members note the Pre-Audit Statement of Accounts.

**4 BACKGROUND**

4.1 In accordance with the Accounts and Audit Regulations, 2015 and taking into account relevant accounting codes of practice and applicable accounting standards, a Statement of Accounts has been prepared.

4.2 Although the compliance noted in 4.1 is no longer mandatory for YPO, as a Joint Committee, it was agreed at Management Committee in March 2016 that a non-statutory audit would still be needed and the accounts would be prepared each year in line with the relevant standards and regulations.

4.3 The audit commenced on 12<sup>th</sup> March 2018 and will conclude on or around 23<sup>rd</sup> March 2018.

- 4.4 The Pre-Audit Statement of Accounts has been examined by officers from the Lead Authority.
- 4.5 Property valuations were obtained from Norfolk Property Services as at 15<sup>th</sup> December 2017 and adjustments to the accounts have been made in accordance with UK Generally Accepted Accounting Principles.
- 4.6 The pensions account has been adjusted in accordance with the recent actuarial valuation provided.

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

- 5.1 On page 10 of the attached Statement of Accounts is the Comprehensive Income and Expenditure (I&E) Account. The I&E Account for 2017 presents a net deficit for the provision of service of (£3.593m). This is in comparison to profits of £7.492m reported in Note 16 “Amounts reported for Decision making and planning” and £7.419m in December’s initial performance report.
- 5.2 The variance between the I&E account and the amounts reported for decision making and planning of (£11.085m) is due to the deficit on the provision of service including all financing and investment expenditure. Therefore, all pension service costs (£1.909m), pension interest costs (£0.783m), dividend payments made in the year of (£7.864m) and earmarked reserve expenditure of (£0.529m) are all included.
- 5.3 The variance between the I&E account and December’s initial performance report of (£11.012m) is again mainly due to the factors mentioned in 5.2 above of (£11.085m) but also includes further adjustments made during a final review of 2017’s accounts, amounting to £0.073m. This includes a reduction in the depreciation charge for the year of £0.088m in line with the valuation gain of our land & buildings detailed in the latest valuation report dated 15<sup>th</sup> December 2017. Partially offsetting this are additional overhead costs identified during the year end closedown of (£0.015m), mainly due to increased catalogue production charges.
- 5.4 The above variances are detailed in appendix 2 to this report.

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

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

### **7. OUTCOME AND SUSTAINABILITY**

- 7.1 An unqualified audit opinion will be a good outcome and will acknowledge that the organisation has effective financial controls and corporate governance. The financial position suggests a solid financial base and that YPO is a going concern.

**8. RISK ASSESSMENT**

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

**9. CONSULTATIONS AND ENGAGEMENT**

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

**10. BACKGROUND PAPERS**

- 10.1 Statement of Accounts for 2017.

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

YPO  
41 Industrial Park  
Wakefield  
WF2 0XE

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

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

YPO  
41 Industrial Park  
Wakefield  
WF2 0XE

Telephone No: 01924 834964  
E-mail address: matthew.hirst@ypo.co.uk

**APPENDICES:**

*Appendix 1: Reconciliation of Deficit on Provision of Service to Year End Profits*  
*Appendix 2: Draft Statement of Account 2017*

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

### 2017 Profit and Loss Reconciliation

	Comp I&E	MGT A/c P&L	Performance Report	Diff to P&L	Diff to Performance report
<b>Invoiced Turnover</b>	<b>110,965</b>	<b>110,965</b>	<b>110,965</b>	<b>0</b>	<b>0</b>
<b>Cost of Sales</b>	<b>(80,316)</b>	<b>(80,316)</b>	<b>(80,316)</b>	<b>0</b>	<b>0</b>
<b>Gross Margin</b>	<b>30,649</b>	<b>30,649</b>	<b>30,649</b>	<b>0</b>	<b>0</b>
Discounts	128	128	128	0	0
Rebates	5,299	5,299	5,299	0	0
Other Income	2,216	2,216	2,218	0	(2)
<b>Gross Surplus</b>	<b>38,292</b>	<b>38,292</b>	<b>38,294</b>	<b>0</b>	<b>(2)</b>
<b>Operating Expenses</b>					
Employees	(18,001)	(17,976)	(17,978)	(26)	(23)
Premises	(1,224)	(1,117)	(1,117)	(107)	(107)
Supplies and Services	(6,850)	(6,453)	(6,437)	(397)	(413)
Transport	(4,608)	(4,608)	(4,608)	0	0
S.L.A. Costs	(127)	(127)	(127)	0	(0)
Financial and Miscellaneous	(267)	(267)	(267)	0	(0)
Depreciation and revaluation increase/(decrease)	(270)	(270)	(358)	0	88
Pension service gain(cost) net of charges made to the general fund	(1,909)			(1,909)	(1,909)
<b>Net Operating Expenditure</b>	<b>(33,256)</b>	<b>(30,817)</b>	<b>(30,892)</b>	<b>(2,438)</b>	<b>(2,364)</b>
<b>Surplus/(deficit) on trading operations</b>	<b>5,036</b>	<b>7,475</b>	<b>7,402</b>	<b>(2,438)</b>	<b>(2,366)</b>
<b>Financing and investment income and expenditure</b>					
Pensions Interest Cost and Expected Return on Pension Assets	(783)			(783)	(783)
Interest Receivable	17	17	17	0	0
Dividend paid	(7,864)			(7,864)	(7,864)
<b>Surplus/(Deficit) on provision of service</b>	<b>(3,593)</b>	<b>7,492</b>	<b>7,419</b>	<b>(11,085)</b>	<b>(11,012)</b>

Slight decrease in the Management recharge to YPO Supplies Limited.

Reserve expenditure of £25K that is required to be disclosed in the comp I&E, plus £2K of savings found during the year end process.

Reserve expenditure of £107K that is required to be disclosed in the comp I&E.

Reserve expenditure of £397K that is required to be disclosed in the comp I&E, plus additional costs of £16K found during year end process.

Decrease in the depreciation charge for the year in line with 2017 valuation report.

**YORKSHIRE PURCHASING ORGANISATION**



**PRE-AUDIT  
STATEMENT  
OF ACCOUNTS  
2017**

41 Industrial Park • Wakefield • WF2 0XE

# Narrative Statement by the Managing Director

## 1. INTRODUCTION

This document is the Statement of Accounts for the Yorkshire Purchasing Organisation. The Statement of Accounts shows the Organisation's financial performance for the year ended 31st December 2017. The Narrative Statement provides a guide to the most significant matters in the financial statements.

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

There are currently 13 founder member authorities and fifty nine associate member authorities of YPO as of 31st December 2017, although the Organisation trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

### Founder Member Authorities

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

### Associate Member Authorities

### first year of membership

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

## Narrative Statement by the Managing Director

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

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

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

### **2. ACCOUNTABILITY AND FINANCIAL REPORTING**

There is no longer a statutory requirement for YPO, as a joint committee, to have an external audit. However, in March 2016 the Management Committee and Section 151 Officer of the lead authority agreed that YPO should continue to prepare, each year, a statement of accounts in accordance with the C.I.P.F.A Code of Practice that is subject to an external audit. Consequently, this will be a non-statutory audit meaning that compliance with the Accounts and Audit Regulations 2015 is not mandatory.

We have continued to categorise our Reserves as "Usable" and "Unusable" in line with the C.I.P.F.A Code of Practice. This is purely for presentational needs and we acknowledge that any powers attributed to this classification no longer applies to the organisation.

### **3. THE STATEMENTS**

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

#### Core Statements

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

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

The Balance Sheet shows the value as at the 31st of December 2017 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

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

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the organisation and the Assistant Chief Executive, Resources & Governance at WMDC for the Statement of Accounts.

## Narrative Statement by the Managing Director

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

### **4. FINANCIAL SUMMARY**

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

Invoiced sales for the year are £110.965m and the reported surplus on trading of £7.492m is under the budget set of £8.463m by £0.971m, this excludes any income for pensions interest or expenditure financed from earmarked reserves.

Turnover targets for the year included growth aspirations which haven't fully materialised. However, the ability to meet these targets have also been impacted by adverse market conditions, particularly within the early years, primary and secondary education sectors. With overall spending across these areas reducing by around 4.5% in the year the organisation's focus shifted to one of customer retention with elements of exploring new opportunities. Therefore whilst an adverse variance in sales of £7.8m may seem worrying it is important to appreciate that maintaining, and in some sectors increasing, market share is equally as significant.

Income from stock and framework contracts at £5.3m were under the budget of £5.39m, mainly due to emergency services framework contributions being lower than expected.

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

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

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

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

Cash flow movement in the year has reduced the cash at bank balances by £3m. This reflects the operating performance of the organisation in the year and reconciles to the in-year profits, dividends paid, and movements in debtors and creditors as per the cash flow statement. There has been no capital expenditure in the year and no other extraordinary movement in cash. It is also expected that future cash flows will only be effected by the day to day operations of the organisation.

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

No acquisitions or discontinuation of operations were made during 2017.

## Narrative Statement by the Managing Director

### **5. RETIREMENT BENEFITS**

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

The employer's contribution rate was 11.9% from Jan to Mar and 14.4% from Apr to Dec 2017. (see note 7 to Core Financial Statements - Retirement Benefits)

International Accounting Standard (IAS) 19 - Employee Benefits which covers pension accounting was revised in 2011 and applies to the Organisation's statements from 2014 onwards.

### **6. SIGNIFICANT MATTERS**

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

A dividend distribution of £7.928m declared in respect of the 2016 trading year, was distributed in September 2017. This included a non cash loyalty bonus of £1.4m payable to individual customers by way of a voucher to be used against future purchases of product.

YPO Procurement Holdings and its subsidiary YPO Supplies Ltd began trading with YPO Joint Committee in 2014. Board members for YPO Procurement Holdings and YPO Supplies are also members of the Joint Committee board and therefore all transactions in 2017 between the above companies are classed as related party transactions.

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

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

A medium term financial strategy has also been drawn up alongside the 2018 budget, this assesses the implications today's actions will have over the next 2-5 years and what impact it will have on future profits and financial position.

Simon Hill  
Managing Director

# Statement of Responsibilities

## THE ORGANISATION'S RESPONSIBILITIES

The Organisation is required to:

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

## THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER

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

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

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

The Chief Finance Officer has also:

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

## CHIEF FINANCE OFFICER

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

.....

**NEIL WARREN**  
**Chief Finance Officer**

## APPROVAL OF THE ACCOUNTS

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

.....

**Cllr LES SHAW**  
**Chairperson YPO Management Committee**

## Auditors Opinion

## Auditors Opinion

## MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement in year on the different reserves held by the Organisation. The surplus (deficit) on Operations line shows the true economic cost of operational activity in the year more details of which, are shown in the Comprehensive Income and Expenditure Statement. The Net increase/(decrease) before transfer to Earmarked Reserves line shows the General Fund Balance prior to any discretionary transfers to or from earmarked reserves applied by the Organisation.

2016	£000's										
	Usable Reserves			Unusable Reserves							
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee Capital Adjustment Account	Earmarked Pension Reserve	Earmarked Accumulated absences account	Revaluation Reserve	Total Usable reserves	Total Unusable reserves	Total Reserves	
Balance as at 31 December 2015	30,302	85	2,303	11,014	(16,827)	(112)	0	32,690	(5,925)	26,765	
<b>Movement in Reserves during 2016</b>											
Surplus or (Deficit) on Operations	(4,039)							(4,039)	0	(4,039)	
Other Comprehensive Income					(11,513)		0	0	(11,513)	(11,513)	
<b>Total Comprehensive Expenditure and Income</b>	<b>(4,039)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,513)</b>	<b>0</b>	<b>0</b>	<b>(4,039)</b>	<b>(11,513)</b>	<b>(15,552)</b>	
Adjustments between accounting basis and funding basis under regulation											
<b>Net Increase / (Decrease) before transfer to Earmarked Reserves</b>	<b>(4,039)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,513)</b>	<b>0</b>	<b>0</b>	<b>(4,039)</b>	<b>(11,513)</b>	<b>(15,552)</b>	
Transfer (to) / from Earmarked Reserves	2,556		(533)	(470)	(1,555)	1	0	2,023	(2,023)	0	
<b>Increase / (Decrease) in Movement in Year</b>	<b>(1,484)</b>	<b>0</b>	<b>(533)</b>	<b>(470)</b>	<b>(13,068)</b>	<b>1</b>	<b>0</b>	<b>(2,016)</b>	<b>(13,536)</b>	<b>(15,552)</b>	
Balance as at 31 December 2016	28,818	85	1,770	10,545	(29,895)	(111)	0	30,674	(19,461)	11,213	13

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

# Comprehensive Income and Expenditure Account

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

# BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2017 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

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

# 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.

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

### Note on operating activities

	The cash flows from operating activities include the following items	
70	Interest Receivable	17
<b>70</b>		<b>17</b>

## Notes to the Core Financial Statements

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

### **1. STATEMENT OF ACCOUNTING POLICIES**

#### **GENERAL PRINCIPLES**

As a Joint Committee, YPO is no longer required to comply with the Accounts and Audit regulations 2015. However, it has been agreed that YPO will continue to produce a statement of accounts in accordance with the C.I.P.F.A Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

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

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

The following policies have been adopted in compiling the accounts:

Fundamental Accounting Concepts:

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

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

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

#### **b. TURNOVER**

invoices were not raised until January. Rebates refer to the value of commission earned on contractual activity in the year. Other income includes marketing support for catalogue production and promotion.

#### **c. OVERHEADS**

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

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

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

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

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

## Notes to the Core Financial Statements

### e. NON CURRENT ASSETS

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

The latest valuation date of land and buildings was 15th December 2017, and was carried out by J Duck FRICS of NPS Humber Ltd.

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

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

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

- v) Where a revaluation loss on a non current asset is recognised as part of a review or a valuation exercise it is accounted for as a charge against the Comprehensive Income and Expenditure Account where there is no or insufficient accumulated gains in the Revaluation Reserve which all losses can be written off.
  - vi) When a non-current asset is disposed of, or decommissioned, any gain or loss on the disposal is credited or charged to the Comprehensive Income and Expenditure Statement. The gain or loss is calculated by reference to the difference between the sale proceeds of the asset and the value of the asset in the balance sheet plus any material costs of disposal. Any revaluation gains in the Revaluation Reserve, relating to the asset disposed of, are transferred to the Joint Committee Capital Adjustment Account.
- Receipts from disposals are credited to the Usable Capital Receipts Reserve and can be used for new capital investment. Receipts are appropriated to the Usable Capital Receipts Reserve from the Movement in Reserves Statement.
- vii) Depreciation has been provided for using the straight-line method on Buildings (excluding land), Vehicles and Equipment and is charged from the time the asset becomes operational. The useful lives of the various assets held on the Asset Register are as follows:

Freehold Buildings	2017
41 Industrial Park	44 years
Flanshaw Way	40 years
Motor Vehicles	up to 5 years
Warehouse and Office Equipment	up to 15 years
Computers	up to 5 years

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

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

### f. INTANGIBLE FIXED ASSETS

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

Expenditure on intangible assets is subject to the same recognition criteria as tangible fixed assets as stated in note d. Intangible assets will be brought on to the Balance Sheet at cost and amortised on a straight line basis over the period for which benefit is received. It is assumed there will be nil residual value. Annual reviews of the value of intangible fixed assets will be undertaken.

Amortisation has been provided for using the straight line method on Intangible fixed assets and is charged from the time the asset becomes operational. The useful life of the Intangible fixed assets held on the Register are as follows:

Internally generated intangible assets - IT Development/Testing & Project management - 3 years

## Notes to the Core Financial Statements

### g. RESERVES

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

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

### h. EMPLOYEE BENEFITS

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

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

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

#### **Termination Benefits**

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

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

#### **Post Employment Benefits**

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

#### **The Local Government Pension Scheme**

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.5% on funded liabilities and 2.5% on unfunded liabilities (based on a weighted average of "spot yields" on AA rated corporate bonds).

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

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

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

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

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

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

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

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

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

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

## Notes to the Core Financial Statements

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

### Discretionary Benefits

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

### i. TAXATION

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

### j. EXCEPTIONAL ITEMS, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS

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

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

### k. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

### l. INTEREST RECEIVABLE/PAYABLE

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

### m. INVENTORIES

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

### n. LEASES

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

YPO accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to YPO. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Fixed Assets held under finance leases are accounted for as part of Property, Plant and Equipment. No assets were held on finance leases as at 31st December 2017.

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

### o. CONTINGENT LIABILITIES & ASSETS

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

### p. PROVISIONS

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

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

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

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

## Notes to the Core Financial Statements

### **g. FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

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

### **r. ESTIMATION TECHNIQUES**

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

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

### **s. CASH & CASH EQUIVALENTS**

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

### **t. FOREIGN CURRENCY TRANSLATION**

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

### **u. DEBTORS**

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

### **v. CREDITORS**

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

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

The Organisation has not been impacted through any accounting standards adopted since the last accounting period.

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

The Code of Practice on Local Authority Accounting 2016/17 requires the Organisation to disclose information relating to the impact on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Organisation. There are no new accounting standards due to come into force in the next year.

The Organisation does not expect any significant changes however all the standards will be fully assessed and adopted where necessary in the 2018 Statement of Accounts.

## Notes to the Core Financial Statements

### 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

#### **Leasing**

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

#### **Related Party Transactions**

The Organisation trades extensively with its owning authorities however, as no one particular authority can exert any controlling influence over the Organisation and all transactions are on an arms length basis they are not classified as related parties in this statement of accounts. For clarity trading with member authorities is included under note 17 of this statement.

#### **Asset ownership**

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

#### **Invoicing of direct supply goods**

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

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

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

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

#### **Pensions Liability**

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

These assumptions interact in complex ways and could produce a range of different results depending on the mix of changes in assumptions. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of around £2.241m.

#### **Framework Contract Income**

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

Whilst every effort is made by the Organisation to accurately forecast balances due to the Organisation as at the year end, there is a risk that returns on these contracts may either exceed or be less than the estimate made at the date of the closure of the accounts. The impact on the statements in the following year will be dependent on the mix of positive and negative variances against estimates. If the estimate of income due was to be different by 5% this would represent a movement of around £200K.

#### **Property, Plant & Equipment**

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

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

#### **Foreign currency transactions**

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

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

### 5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

During 2017 there have been several items of material income and expenditure that have been reflected in this statement of accounts. The main ones are;

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

## Notes to the Core Financial Statements

An additional £0.172m of catalogue contribution income has been taken in the year due to an under accrual of expected income in the 2015 year end accounts.

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

An agreed dividend distribution of £7.928m for the trading year 2016 was distributed in September 2017. This distribution included all customers. As at the 31st December 2017 there was a balance of £173K of loyalty vouchers unredeemed.

### 6. TURNOVER

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

### 7. RETIREMENT BENEFITS

#### Participation in pension schemes

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

The organisation participates in the Local Government Pension Scheme (LGPS), administered by the West Yorkshire Pension Fund (WYPF). This is a funded defined benefit final salary scheme, meaning that the organisation pays contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The employers' rate of contribution for January to March 2017 was 11.9% and from April to December 2017 14.4%. Employees contributions in 2017 were between 5.5% and 12.5% depending on salary.

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

#### Transactions relating to post - employment benefits

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

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

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

## Notes to the Core Financial Statements

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

	Males		Females	
	2016	2017	2016	2017
Rating to base table	0	0	0	0
Scaling to base table rates (Current)	105%	100%	100%	90%
Scaling to base table rates (Future)	-	115%	-	90%
Cohort improvement factors	CMI2012	CMI2012	CMI2012	CMI2012
Minimum underpin to improvement factors	1.50%	1.50%	1.50%	1.50%
Future lifetime from age 65 (currently aged 65)	22.7	22.1	25.6	25.2
Future lifetime from age 65 (currently aged 45)	24.9	23	28	27

### Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the organisations obligation in respect of its defined benefit schemes is as follows

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

### Reconciliation of Fair Value of the Scheme Assets

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

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

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

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

### Local Government Pension Scheme Assets

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

	Assets held	
	2016	2017
Equity investments	76.00%	77.30%
Property	4.40%	4.50%
Bonds	14.50%	13.10%
Other assets *	5.10%	5.10%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

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

## Notes to the Core Financial Statements

### Basis for estimating assets and liabilities

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

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method.

### Impact on the Defined benefit Obligation in the Scheme

	Increase in Assumption £000	Decrease in Assumption £000
Member Life expectancy (+ or - 1 year)	3,719	(3,688)
Rate of increase in salaries (+ or - 0.1%)	576	(571)
Rate of increase in pensions (+ or - 0.1%)	1,701	(1,676)
Rate for discounting scheme liabilities (+ or - 0.1%)	(2,241)	2,284

### Impact on the Organisation's Cash Flows

The liabilities show the underlying commitment that the Organisation has in the long run to pay post employment / retirement benefits. The total liability of £25,571k has a substantial impact on the net worth of the organisation as recorded in the balance sheet. Arrangements for funding the deficit mean that the financial position of the organisation remains healthy.

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

The contributions expected to be made by the Organisation to the Local Government Pension Scheme in the year to 31st December 2018 are £1.828m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2018 are £0.065m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 years.

The scheme will need to take account of the national charges to the scheme under the Public Pensions Services act 2013 Under the act, the Local Government pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

## Notes to the Core Financial Statements

### 8. Property Plant and Equipment

As at 31 December 2017, the Organisation held the following assets

Property plant and equipment were predominantly represented by 43 Delivery vehicles (2016 = 48), 93 Container units (2016 = 93) and Land and Buildings comprising of one general supplies warehouse and office complex located at 41 Industrial Park, Wakefield and one located at Flanshaw Way, Wakefield (no change from 2016).

#### Property Plant and Equipment

##### Cost or valuation

Opening balance 1 January 2017  
 Acc depreciation write out to gross carrying amount  
 Revaluation increase / (decrease) recognised in the Revaluation Reserve  
 Revaluation increase / (decrease) recognised in the I&E  
 Additions  
 Impairment  
 Disposals

**At 31 December 2017**

##### Depreciation and impairments

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

**At 31 December 2017**

**Net Book Value at 31 December 2017**

**Net Book Value at 1 January 2017**

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2017	9,058	738	925	3,336	14,057
Acc depreciation write out to gross carrying amount	(157)			-	(157)
Revaluation increase / (decrease) recognised in the Revaluation Reserve		-	-	-	0
Revaluation increase / (decrease) recognised in the I&E	98	-	-	-	98
Additions	0	0	0	-	0
Impairment					
Disposals					
<b>At 31 December 2017</b>	<b>9,000</b>	<b>738</b>	<b>925</b>	<b>3,336</b>	<b>13,999</b>
<b>Depreciation and impairments</b>					
Opening balance 1 January 2017	0	436	864	2,915	4,215
Charge for depreciation 2017	157	42	17	112	329
Disposals		-	-	-	0
Impairment		-	-	-	0
Acc depreciation write out to gross carrying amount					0
Revaluation	(157)	-	-	-	(157)
<b>At 31 December 2017</b>	<b>0</b>	<b>478</b>	<b>881</b>	<b>3,028</b>	<b>4,387</b>
<b>Net Book Value at 31 December 2017</b>	<b>9,000</b>	<b>260</b>	<b>44</b>	<b>308</b>	<b>9,612</b>
<b>Net Book Value at 1 January 2017</b>	<b>9,058</b>	<b>302</b>	<b>61</b>	<b>421</b>	<b>9,842</b>

#### 2016 Comparative

#### Property Plant and Equipment

##### Cost or valuation

Opening balance 1 January 2016  
 Acc depreciation write out to gross carrying amount  
 Revaluation increase / (decrease) recognised in the Revaluation Reserve  
 Revaluation increase / (decrease) recognised in the I&E  
 Additions  
 Impairment  
 Disposals

**At 31 December 2016**

##### Depreciation and impairments

Opening balance 1 January 2016  
 Charge for depreciation 2016  
 Disposals  
 Impairment  
 Acc depreciation write out to gross carrying amount  
 Revaluation

**At 31 December 2016**

**Net Book Value at 31 December 2016**

**Net Book Value at 1 January 2016**

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2016	9,240	732	925	3,336	14,233
Acc depreciation write out to gross carrying amount	(156)			-	(156)
Revaluation increase / (decrease) recognised in the Revaluation Reserve		-	-	-	0
Revaluation increase / (decrease) recognised in the I&E	(26)	-	-	-	(26)
Additions	0	6	0	-	6
Impairment					
Disposals					
<b>At 31 December 2016</b>	<b>9,058</b>	<b>738</b>	<b>925</b>	<b>3,336</b>	<b>14,057</b>
<b>Depreciation and impairments</b>					
Opening balance 1 January 2016	0	387	847	2,727	3,961
Charge for depreciation 2016	156	49	17	188	410
Disposals		-	-	-	0
Impairment		-	-	-	0
Acc depreciation write out to gross carrying amount					0
Revaluation	(156)	-	-	-	(156)
<b>At 31 December 2016</b>	<b>0</b>	<b>436</b>	<b>864</b>	<b>2,915</b>	<b>4,215</b>
<b>Net Book Value at 31 December 2016</b>	<b>9,058</b>	<b>302</b>	<b>61</b>	<b>421</b>	<b>9,842</b>
<b>Net Book Value at 1 January 2016</b>	<b>9,877</b>	<b>367</b>	<b>47</b>	<b>252</b>	<b>10,544</b>

## Notes to the Core Financial Statements

### 8a. Intangible Assets

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

#### 31st Dec 2017

##### Cost or valuation

Opening balance 1 January 2017  
 Additions  
 Impairment  
 Disposals

Intangible Assets £'000
118

#### At 31 December 2016

<b>118</b>
------------

##### Amortisation and impairments

Opening balance 1 January 2017  
 Amortisation charge for 2017  
 Impairment  
 Disposals

88
30

#### At 31 December 2017

<b>118</b>
------------

#### Net Book Value at 31 December 2017

<b>0</b>
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#### Net Book Value at 1 January 2017

<b>30</b>
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#### 2015 Comparative

##### Cost or valuation

Opening balance 1 January 2016  
 Additions  
 Impairment  
 Disposals

Intangible Assets £'000
118

#### At 31 December 2015

<b>118</b>
------------

##### Amortisation and impairments

Opening balance 1 January 2016  
 Amortisation charge for 2016  
 Impairment  
 Disposals

49
39

#### At 31 December 2016

<b>88</b>
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#### Net Book Value at 31 December 2016

<b>30</b>
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#### Net Book Value at 1 January 2016

<b>69</b>
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### 9. Inventories

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

31st Dec 2016	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	12,577	55	12,632
Purchases	61,657	373	62,030
Recognised as an expense in year	(61,804)	(365)	(62,169)
Reduction of Stock in Transit accrual	(60)	-	(60)
Reversals of write offs in previous years	4	-	4
<b>Closing Inventory balance</b>	<b>12,373</b>	<b>63</b>	<b>12,436</b>
Provision for stock write off	(223)	0	(223)
<b>Closing Inventory balance net of provisions made</b>	<b>12,150</b>	<b>63</b>	<b>12,213</b>

## Notes to the Core Financial Statements

### 10. DEBTORS AND PAYMENTS IN ADVANCE

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

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

Debtors are analysed by the following categories

#### Trade debtors

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

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

#### Payments in advance and accrued income

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

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

### 11. CREDITORS AND RECEIPTS IN ADVANCE

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

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

Creditors are analysed by the following categories

#### Trade creditors

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

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

#### Accruals/VAT

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

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

#### Long Term Liabilities

Liability relating to Defined Benefit Pension Scheme

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

## Notes to the Core Financial Statements

### 12. RISK TO FINANCIAL INSTRUMENTS

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

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

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

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

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

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

A general provision of £112k (2016 £66k) has been included against all debtors. Bad debt calculations are based on the debtor type and agreed upon with the sales ledger manager.

### 13. MOVEMENTS IN RESERVES

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

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

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

to protect the Organisation against unforeseen events and the realisation of contingent liabilities. Included within the overall General Fund balance is the Financial Stability Fund which as at 31st December 2017 had a balance of £1m.

## Notes to the Core Financial Statements

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

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

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

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

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

## Notes to the Core Financial Statements

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

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

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

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

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

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

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

## Notes to the Core Financial Statements

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

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

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

### 14. EMPLOYEE EMOLUMENTS

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

REMUNERATION BAND £	No of Employees	
	2016 Re-stated	2017
50,000 - 54,999	6	8
55,000 - 59,999	4	4
60,000 - 64,999	2	3
65,000 - 69,999	1	-
70,000 - 74,999	-	1
75,000 - 79,999	-	1
<b>TOTAL</b>	<b>13</b>	<b>17</b>

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

The table below sets out the remuneration disclosure (Board of Directors) whose salary is £50,000 per year or more by job title. Comparative figures for 2015 are also shown and these officers are excluded from the above table.

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

2016						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	126,532	-	-	-	14,592	141,123
Executive Director	94,871	-	-	-	10,542	105,413
Executive Director	93,512	-	-	-	10,542	104,054
Assistant Director	82,239	-	-	-	9,228	91,467
	<b>397,153</b>	-	-	-	<b>44,905</b>	<b>442,058</b>

## Notes to the Core Financial Statements

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

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

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

### **15. OPERATING LEASES**

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

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

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

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2017 were £500k (2016 £470k) of which £29K was rent of Flanshaw Way. The later than five years figure is comprised entirely of a long term lease agreement on the land element of a warehouse property held at Flanshaw Way in Wakefield.

### **16. AMOUNTS REPORTED FOR DECISION MAKING AND PLANNING**

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

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

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

## Notes to the Core Financial Statements

2015 £'000	Reconciliation of P&L Account to I&E Account	2016 £'000
7,426	Net Profit in P&L Account	7,492
(11,465)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	(11,085)
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
<b>(4039)</b>	<b>Surplus/(Deficit) on provision of service</b>	<b>(3593)</b>

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

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

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

YPO Profit & Loss 2016	P&L Acct £'000	Amts not Alloc'n of rptd for mgt reporting dec making expenses		I&E Statement £'000
		£'000	£'000	
<b>Total Invoiced Sales</b>	<b>113,904</b>	-	-	<b>113,904</b>
Cost of Sales	(83,926)	-	-	(83,926)
<b>Gross Margin</b>				0
Discounts	142	-	-	142
Rebates	4,335	-	-	4,335
Other Income	2,905	-	-	2,905
<b>Total Income</b>	<b>37,361</b>	<b>0</b>	-	<b>37,361</b>
<b>Operating Costs</b>				
Employment costs	(17,583)	-	-	(17,583)
Premises	(940)	-	-	(940)
Supplies and Services	(6,178)	-	-	(6,178)
Transport	(4,583)	-	-	(4,583)
SLA costs	(102)	-	-	(102)
Financial & Misc	(143)	-	-	(143)
Depreciation	(475)	-	-	(475)
<b>Total Operating Costs</b>	<b>(30,005)</b>	<b>0</b>	-	<b>(30,005)</b>
Interest (payable)/receivable	70	-	-	70
Profit/(loss) on disposals	-	-	-	0
Dividend paid	-	(8,798)	-	(8,798)
Earmarked reserves funding	-	(1,112)	-	(1,112)
Pension costs	-	(1,555)	-	(1,555)
<b>Surplus or (deficit) on provision of service</b>	<b>7,426</b>	<b>(11,465)</b>	-	<b>(4,039)</b>

## Notes to the Core Financial Statements

### 17. RELATED PARTY TRANSACTIONS

The Organisation is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Organisation or to be controlled or influenced by the Organisation.

Transactions with Founder Member Authorities are shown here for clarity. Founder member authorities are not classified as related parties under the Code of Practice or for the purpose of group accounting but have joint control over the Organisation's decision making and business planning. In addition to the founder members the Organisation has 59 associate members who have no influence over Organisational decision making.

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

The value of business transacted with each founder member was:

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

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

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

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

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

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

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

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

### 18. AUDIT COSTS

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

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

## Notes to the Core Financial Statements

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

The 23rd March 2018 Management Committee Meeting approved the pre audit statement of Accounts and agreed a profit distribution in respect of the 2017 trading year of £x.xxxm covering members dividend and the YPO loyalty scheme.

This Statement incorporates changes identified during the course of the audit process and no other events have given rise to changes in this statement between the balance sheet date and the authorisation for issue date of the 25th May 2018 when the accounts were authorised for issue by the Audit and Scrutiny Sub Committee.

## Glossary of Terms

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

### **Accounting Period**

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

### **Actuarial Gains and Losses**

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

### **Accumulated Absences**

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

### **Annual Governance Statement**

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

### **Asset**

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

### **Audit of Accounts**

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

### **Budget**

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

### **Cash equivalents**

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

### **Cash equivalent vouchers**

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

### **Current Assets**

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

### **Defined Benefit Plans**

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

### **Depreciation**

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

### **Direct Supply**

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

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

### **Finance Lease**

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

### **Financial Instrument**

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

### **Financial Procedure Rules**

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

### **Impairment**

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

### **International Accounting Standards (IAS)**

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

### **International Financial Reporting Standards (IFRS)**

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

### **Inventories**

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

### **Liability**

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

### **Net Book Value**

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

### **Net Expenditure**

Gross expenditure less specific income.

### **Outturn**

Actual income receivable and expenditure due in a financial year.

### **Payments in Advance**

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

### **Prior year adjustments**

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

### **Remuneration**

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

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

**Reserve**

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

**Turnover**


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

**Useful life**

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

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	<p><b>YPO</b></p> <p><b>MANAGEMENT COMMITTEE</b></p> <p><b>TO BE HELD ON</b></p> <p><b>23<sup>RD</sup> MARCH 2018</b></p>
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**TITLE: INTERNAL AUDIT – ANNUAL REPORT – JANUARY TO DECEMBER 2017**

**REPORT OF: THE s151 OFFICER**

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## **1 PURPOSE OF REPORT**

### **1.1 To present:**

- The draft Annual Audit Report (see attached Appendix A) for 2017, in line with the requirements of the Internal Audit Protocol and the Public Sector Internal Audit Standards.
- An Internal Audit Progress report covering work undertaken between 1 January 2017 and January 2018 (see attached Appendix B).

### **1.2 To receive the following Internal Audit Opinion (extract from YPO Annual Governance Statement [AGS] 2017):**

'From the work undertaken by Internal Audit during 2017, key controls were found to be in place to manage associated risks to the required level, with no significant errors, losses or omissions identified in the majority of systems subject to review. However the result of the investigation undertaken during the year relating to the Bank Fraud perpetrated against YPO, revealed that established controls had not been robustly applied by Officers, had they been the fraud would have been unlikely to succeed. This following on from the procurement fraud which occurred in 2016 relating to the misappropriation of goods by diverting the delivery of laptops to a bogus address, raises concerns as to the extent that Officers are aware of the risk of fraud against the organisation and are adhering to established control processes.

It is acknowledged that Senior Management continues to strengthen overall governance arrangements, including implementing audit recommendations to improve areas of control weakness identified from individual Internal Audit reviews. Consequently there are no new key control improvements arising from Internal Audit work that require inclusion in Section 5 of the 2017 AGS."

## **2 BACKGROUND INFORMATION**

- 2.1 The Annual Report, which has been produced in line with the Public Sector Internal Audit Standards, is attached at Appendix A. It presents the Service Manager Internal Audit & Risk's opinion on the overall adequacy and effectiveness of YPO's internal control environment, based on the outcomes of audit work undertaken.
- 2.2 The Progress Report covering work undertaken between 1 January 2017 and January 2018, included as Appendix B, is presented for consideration by the Management Committee in line with agreed protocols for periodically keeping Members updated on issues arising from Internal Audit work.

## **3 STRATEGIC IMPLICATIONS**

- 3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the 2017 Internal Audit Plan are linked to various YPO strategic risks.

## **4 FINANCIAL IMPLICATIONS**

- 4.1 There are no specific financial implications associated with this report. The programme of audit work during 2017 was completed at a cost to YPO of £45000 which was in line with the original Annual Audit Plan agreed by Members.

## **5 LEGAL IMPLICATIONS**

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

## **6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

## **7 RISK IMPLICATIONS**

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the Organisation's systems of internal control. Its contribution assists in identifying areas of improvement in control in the management of key risks.
- 7.2 In line with the terms of reference for the Audit Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

## **8 RECOMMENDATIONS**

- 8.1 That Members consider and accept the Annual Report attached at Appendix A.
- 8.2 That Members comment on and endorse the Internal Audit Progress report attached as Appendix B to this report.

**CONTACT OFFICERS:**

Neil Warren Chief Finance Officer & S151 Officer (Wakefield Council)

Telephone No: 01924 306433

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

Julie Gill, Interim Head of Internal Audit & Risk (Wakefield Council)

Telephone No: 01924 303619

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

**APPENDIX:**

*Appendix 1 – Internal Audit Annual Report 2017*

**Internal Audit  
Annual Report**

**YPO**

**January to December 2017**

## INTRODUCTION

1. This annual report is produced in line with the requirements of the Public Sector Internal Audit Standards and covers the period January to December 2017. The report feeds back progress and outcomes against the Annual Audit Plan for the period.
2. Members should note that the programme of internal audit work was completed in line with the allocation of days recorded in the original Annual Audit Plan. Any ongoing audit work as at the 31<sup>st</sup> December 2017 has been included within the Plan for January to December 2017, in line with arrangements agreed with YPO management.

## SUMMARY AUDIT OPINION

3. Wakefield Council Internal Audit's overall opinion on the systems of internal control at YPO during 2017, which will be included in YPO's 2017 Annual Governance Statement (AGS), is as follows:

'From the work undertaken by Internal Audit during 2017, key controls were found to be in place to manage associated risks to the required level, with no significant errors, losses or omissions identified in the majority of systems subject to review. However the result of the investigation undertaken during the year relating to the Bank Fraud perpetrated against YPO, revealed that established controls had not been robustly applied by Officers, had they been the fraud would have been unlikely to succeed. This following on from the procurement fraud which occurred in 2016 relating to the misappropriation of goods by diverting the delivery of laptops to a bogus address, raises concerns as to the extent that Officers are aware of the risk of fraud against the organisation and are adhering to established control processes.

It is acknowledged that Senior Management continues to strengthen overall governance arrangements, including implementing audit recommendations to improve areas of control weakness identified from individual Internal Audit reviews. Consequently there are no new key control improvements arising from Internal Audit work that require inclusion in Section 5 of the 2017 AGS."

## INTERNAL AUDIT PERFORMANCE

4. In respect of the performance of the Internal Audit Service, the planned work for the period January to December 2017 was substantially completed by the end of December 2017 in line with the days originally agreed.
5. No concerns have been raised regarding the nature and conduct of Internal Audit work by the External Auditor.
6. Wakefield Council Internal Audit Service has been the subject of a Public Sector Internal Audit Standards External Compliance Assessment Peer Review, which was conducted by the Head of Internal Audit at Calderdale Council. An external assessment must be conducted at least once every five years. The current assessment represents the first external assessment of Wakefield's Internal Audit arrangements against these Standards. The report, dated the 20<sup>th</sup> December 2016, states that the function "Generally Conforms" to the Public Sector Internal Audit Standards and Code of Ethics. "Generally Conforms" is the top rating and means that the Internal Audit activity has a Charter, policies and processes that are judged to be

in conformance with the Standards. The findings and suggested actions from the report are being considered in order to develop a Quality Assurance and Improvement Programme which will be used and maintained on an ongoing basis.

7. All Internal Audit work is subject to a quality control process, including formal review of work by the appropriate level of audit management.
8. Five client surveys were issued following completion of the audit assignments referred to in Table 1 below. Five were completed and returned, four with an overall opinion of 'Very Good' and one with an overall opinion of 'Good', thus achieving the current target of 95% Good / Very Good.

### **SUMMARY OF AUDIT WORK COMPLETED AND RELATED OPINIONS**

9. This section of the report provides details of how Internal Audit has assisted management in fulfilling their responsibilities for operating effective systems of internal control through the provision of audit reviews and agreed action plans. The Audit Sub-Committee receives detailed information and provides challenge to management relating to audit reviews resulting in Partially Effective / Ineffective opinions, or where opinions decrease from one audit to another relating to the same system.
10. Table 1 attached provides details of audit work reported relating to the 2017 Internal Audit Plan. 5 reports were issued by Internal Audit. In addition, two reports were issued by Wakefield Council's Corporate Fraud Unit, working in liaison with Internal Audit.
11. In addition to these audit reports, Internal Audit resources were utilised within the following areas of activity:
  - 11.1 Internal Audit used data analytics software to analyse payroll variations as an extension to the work undertaken in the 2016 and 2017 audit reviews. As stated in previous years, the findings may be considered as a basis for monitoring amounts spent on variations / overtime etc. within YPO.
  - 11.2 Various instances of consultancy / advice-type support throughout the year, including (in liaison with Wakefield Council's Corporate Fraud Unit) advice on various fraud-related matters.
  - 11.2 Producing reports for, and attending, YPO Committee meetings. In addition, together with an officer from KPMG, a training session took place for Audit Sub-Committee Members on the External and Internal Audit relationship.
12. Based on audit work undertaken in 2017, the following points are worthy of note:
  - 12.1 All 3 of the main financial systems examined were assessed as 'Mostly Effective' this recognises that, in the main, risks are being managed to an appropriate level, with appropriate controls established and in place. There were some areas for improvement as detailed below:

## ***Payroll***

Variations data is manually input into a spreadsheet, submitted to Wakefield Council Payroll then manually input into the iTrent system. Whilst no errors were identified from the sample of transactions examined, the processes are cumbersome and vulnerable to human error.

Consideration should also be given to implementing a check to assess the validity of changes to bank details prior to the change being processed within the Wakefield Council Payroll / HR section

## ***Debtors – Business Income***

There is a lack of separation of duties which could result in the abuse of position and / or employee vulnerability to accusations of collusion / favourable treatment / corruption in relation to the issuing of credit notes. Also, whilst data / reporting is available to undertake analysis of the credit notes issued and can be filtered / sorted for analysis, this is not currently interrogated within the Customer Experience Team

## ***Debtors – Non-Business Income***

Internal Audit selected a sample of 10 new customers / credit accounts where the company name indicated that the organisation was a limited company / with private sector financing. Testing of the sample noted that Credit checks were not undertaken in respect of 3 limited companies although it was acknowledged that 1 related to new premises of a company that already had an account with YPO; however this was inactive since 2013. Also 2 out of the 3 limited companies had no credit limit assigned.

- 12.2 The review relating to Fleet replacement and 3<sup>rd</sup> Party Logistics identified that in general sound controls were in place and operating effectively. From testing three key areas for improvement were identified being:

12.2.1 Although a Service Level Agreement (SLA) is currently being produced to formalise arrangements between Wakefield Council and YPO regarding the servicing and maintenance of YPO's fleet, it has not yet been signed off.

12.2.2 Regular checks are not being undertaken to identify when driver mandates need to be reviewed for drivers who are YPO employees and 'Agency Driver Share Your Licence Declaration' forms may not be being completed by all Agency drivers.

12.2.3 The Drivers Handbook has not been updated since February 2015.

- 12.3 The review of Business Performance Management resulted in a Fully Effective opinion on the basis that the controls in place at the time of the audit were generally found to be sound. In arriving at this opinion it was noted that a significant amount of change was taking place within YPO, notably through delivery of a number of individual strategies, which in turn link back to the overall Organisation's Strategy for 2015-2017. In this respect the audit found that, business performance (and linked to that the management of business performance) was being considered as part of implementing change. The review did not highlight any key areas upon which action needed to be taken. However, a number of actions were agreed, these primarily related to

suggestions around performance reporting going forward and are seen as enhancements to existing arrangements.

- 12.4 A follow up review of Electronic Card Payments found that the agreed actions had been 'Mostly Implemented'. This reflects that actions have been fully implemented in relation to many of the issues raised in the original audit. However, there were some actions still requiring attention being:

12.4.1 Portable media encryption should be introduced as soon as possible, and supported within security policies. This is currently proposed but not yet completed.

12.4.2 The PCI DSS self-assessment exercise was considered to be dated. A repeat exercise or similar is to be given consideration within the IT security review.

- 12.5 A follow up review relating to Procedures in place for delivering Business Planning Objectives / Priorities has been undertaken which identified that the agreed actions had been 'Mostly Implemented' This reflects that actions have been fully implemented in relation to many of the issues raised in the original audit. However, the main issue still to be progressed relates to the completion of risk registers. It was confirmed that there is a planning risk register for 2017 and an emerging risk register for 2018. Unfortunately work to update the operational risk registers halted in February 2017 following the absence of the then Risk and Compliance Manager and has not yet been completed. However, it is acknowledged that the Strategic Risk Register, and the Fraud and Bribery risk register, is currently being reviewed, with a view to reporting the updated documents to the Board in January 2018 and Audit & Scrutiny Sub in February 2018. Once the above review has been completed, a full review of the operational risk registers will be undertaken.

13. Actions were agreed with YPO management to address the concerns highlighted in paragraph 12. Progress in implementing these agreed actions is monitored by the Audit Sub-Committee. They receive regular progress reports from Internal Audit. In addition, the Audit Sub-Committee also receives occasional reports from YPO management providing an update on progress made in implementing all audit recommendations.

**AUDIT WORK REPORTED RELATING TO THE 2017 INTERNAL AUDIT PLAN**

Review Area / Report Date	Audit Opinion
Main Financial Systems 2017 – 26/01/18  - Implementation of Previously Agreed Actions  - Payroll  - Debtors Business Income  - Debtors – Non-Business Income	Fully Implemented  Mostly Effective  Mostly Effective  Mostly Effective
Fleet replacement and 3 <sup>rd</sup> Party Logistics – 29/03/17	Mostly Effective
Business Performance Management – 21/6/17	Fully Effective
Electronic Card Payments Follow up – 20/09/17	Mostly Implemented
Procedures in place for delivering Business Planning Objectives / Priorities – Follow up review – 10/01/18	Mostly Implemented

In addition, Wakefield Council’s Corporate Fraud Unit, working in liaison with Internal Audit, issued a report on 13 January 2017 on external procurement fraud by bogus customers. Actions were agreed to reduce the likelihood of orders from bogus customers being accepted.

A further fraud relating to Banking has also been investigated and an initial report issued to Members in respect of this in September 2017. A further update report was also agreed on 9/01/18 to outline the current position on the circumstances leading to the perpetration of the fraud and the recovery of monies to date. Actions have been accepted and implemented by Senior Management to ensure that the likelihood of this type of fraud being perpetrated on YPO in the future is minimised as far as possible.

**INTERNAL AUDIT PROGRESS REPORT – NOVEMBER 2017 TO JANUARY 2018**


1. Internal Audit reports have been issued since the last Internal Audit Progress Report was discussed at the YPO Audit Sub-Committee on the 3rd November 2017, as shown below:

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
<p>Main Financial Systems 2017 – /01/18</p> <ul style="list-style-type: none"> <li>- Implementation of Previously Agreed Actions</li> <li>- Payroll</li> <li>- Debtors – Business Income</li> <li>- Debtors – Non-Business Income</li> </ul>	<p style="text-align: center;"><b>Fully Implemented</b></p> <p style="text-align: center;"><b>Mostly Effective</b></p> <p style="text-align: center;"><b>Mostly Effective</b></p> <p style="text-align: center;"><b>Mostly Effective</b></p> <p>This year’s audit marked the continuation of a new approach to auditing the main financial systems. Rather than covering all nine systems annually, the intention is for them to be covered over a three-year cycle. The main benefit of this approach is that it has been possible to undertake a slightly more comprehensive review than in past years of the three systems referred to above.</p> <p>The overall assessments of ‘mostly effective’ for ‘Payroll; Debtors Business Income’ and ‘debtors – Non-Business Income’ recognise that, in the main, risks are being managed to an appropriate level, with appropriate controls established and in place.</p>	<p>The action plan is not due to be returned until the 23/03/18</p>
<p>Procedures in place for delivering Business Planning Objectives / Priorities – Follow up review – 10/01/18</p>	<p>It was confirmed that actions have been fully implemented in relation to many of the issues raised in the original audit. However, the main issue still to be progressed relates to the completion of risk registers.</p>	<p>The action plan is not due to be returned until the 09/03/18</p>

2. In addition, Wakefield Council's Corporate Fraud Unit, working in liaison with Internal Audit, issued a report in 2017 on external procurement fraud by bogus customers. Actions were agreed to reduce the likelihood of orders from bogus customers being accepted.
3. Three Internal Audit reports were issued during the period January to October 2017 and discussed at previous Audit Sub-Committee meetings:
  - Fleet replacement and 3rd Party Logistics – 29/03/17
  - Business Performance Management – 21/6/17
  - Electronic Card Payments Follow up – 20/09/17
4. In addition to the reports summarised in paragraph 1 above, the following Internal Audit work is ongoing:
  - IT change control
  - Workforce Skills
  - Limited company
  - Consultation / advice –type support as requested to the Link programme relating to the installation of an ERP (enterprise resource planning) system.

The main emphasis of Internal Audit's work up to the end of March 2018 will be the completion of these audits.

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	<p style="text-align: center;"><b>YPO</b></p> <p style="text-align: center;"><b>MANAGEMENT COMMITTEE</b></p> <p style="text-align: center;"><b>TO BE HELD ON</b></p> <p style="text-align: center;"><b>23<sup>RD</sup> MARCH 2018</b></p>
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**TITLE: DRAFT 2018 - 2020 YPO INTERNAL AUDIT THREE YEAR PLAN**

**REPORT OF: THE s151 OFFICER**

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**1 PURPOSE OF REPORT**

- 1.1 This report is produced by the s151 Officer to provide Members of the Management Committee with details of the draft 2018 - 2020 YPO Internal Audit Plan.

**2 BACKGROUND INFORMATION**

- 2.1 The Sub-Committee received a report at the meeting held on the 3<sup>rd</sup> November 2017, outlining the proposed process for formulating the 2018 YPO Internal Audit Plan, including a template of potential areas of audit activity. Members confirmed the proposed process and requested that a detailed draft Audit Plan be presented to a future meeting of the Sub-Committee and subsequent Management Committee.

Following the presentation of potential areas for review the detailed draft 2018 YPO Internal Audit Plan was discussed with Simon Hill (Managing Director) and Paul Smith (Executive Director) at which point, the possibility of a three-year plan was discussed and it was agreed that this would be trialled and presented to Members for consideration. The Plan is based on 125 days of Internal Audit work per year, at a cost to YPO of £45,000 (at current rates). However, this may be subject to change dependent on the agreed level of audit coverage required each year.

- 2.2 Following consideration by the Sub-Committee, approval is now required from the Management Committee.

**3 STRATEGIC IMPLICATIONS**

- 3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the draft 2018 Internal Audit Plan are linked to various strategic risks.

**4 FINANCIAL IMPLICATIONS**

- 4.1 The cost of provision of the Internal Audit function is £45,000 and has been included within the YPO 2018 Budget.

**5 LEGAL IMPLICATIONS**

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

**6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

**7 RISK IMPLICATIONS**

- 7.1 Reports issued by Internal Audit, following completion of individual assignments as detailed in an Annual Audit Plan, provide assurances to those charged with governance as to the adequacy or otherwise of the Organisation's Risk Management arrangements relevant to the achievement of the Organisation's objectives.

**8 RECOMMENDATION**

- 8.1 That Management Committee approve the draft Annual Audit Plan for 2018, attached as Appendix A to this report.

**CONTACT OFFICERS:**

Neil Warren Chief Finance Officer & S151 Officer (Wakefield Council)

Telephone No: 01924 306433

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

Julie Gill, Interim Head of Internal Audit & Risk (Wakefield Council)

Telephone No: 01924 303619

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

**APPENDIX:**

*Appendix 1 – YPO Draft Internal Audit Annual Plan 2018*

**YPO**

**Draft Internal Audit**

**Annual Plan**

**2018**

## INTRODUCTION

1. The definition of Internal Audit included within the Public Sector Internal Audit Standards (PSIAS) is:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

2. In view of the PSIAS definition, the key aim of Internal Audit at YPO is to help management fulfil their responsibilities for ensuring that there are proper systems of internal control in place in order to mitigate risks associated with the provision of all YPO services and achievement of YPO’s objectives.
3. Fundamental to achieving the above aim is a structured approach to producing risk based Internal Audit Plans, covering all areas of activity agreed to be appropriate.
4. Key business risks are subject to change annually, and whilst a 3 year Audit Plan is being proposed, this will still be subject to annual review and amended as necessary to reflect any change in business risks.
5. In line with the PSIAS, the Plan is kept under review for emerging risks and is formally reviewed throughout the year, with any proposed / necessary changes discussed with the YPO Board and reported to Audit Sub-Committee. Should any revisions to the Plan be deemed to be significant, they would be reported to Management Committee for formal approval.

## AUDIT STRATEGY

6. A team of professionally qualified and appropriately experienced staff from the Lead Authority (Wakefield Council) will provide the YPO Internal Audit service.
7. A formal Protocol exists which sets out the detailed procedures for delivering the Internal Audit service within the above arrangements.
8. Internal Audit’s key objectives within YPO are to:
  - (a) Continue to provide a “value added service”, with an appropriate mix of traditional assurance work, consultancy type work and support on fraud-related issues, utilising risk based audit initiatives and techniques wherever appropriate;
  - (b) Ensure the effective Internal Audit review of YPO activity, as identified in the attached detailed Annual Audit Plan at Attachment 1.
9. Internal Audit achieves its objectives by cyclically undertaking reviews of financial and non-financial risks and reporting to appropriate levels of management on assurances gained and areas for improvement. Additionally, in line with the scope of audit activity supported by PSIAS, Internal Audit resources are allocated to providing consultancy and fraud-related work as part of the planning process.
10. The outcomes of Internal Audit reviews, reported through periodic progress reports, are utilised in informing the annual Internal Audit opinion, forming part of the statutory Annual Governance Statement which supports YPO’s annual accounts.

**APPROACH TO SETTING THE 2018 - 2020 PLAN**

11. Having taken into account all relevant factors, the areas to be considered for inclusion within the 2018 - 2020 Plan were identified, recorded and discussed with Simon Hill (Managing Director) and Paul Smith (Executive Director). The agreed Plan is included as Attachment 1 to this report.
  
12. The resource envisaged to complete the 2018 - 2020 Internal Audit Plan is based on 125 days of Internal Audit work per year, at a cost to YPO of £45,000

## YPO DRAFT INTERNAL AUDIT PLAN 2018 TO 2020

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<b>Main Financial Systems</b>					
<p>Main Financial Systems – annual review and testing.</p> <p><b>Linked to various finance-related strategic risks.</b></p> <p><b>Also linked to YPO operational risk register for Finance.</b></p>	<p>High volume and value of transactions.</p> <p>Assurance provided to s151 officer and External Auditor.</p>	✓	✓	✓	<p>The following systems to be covered over a three-year period are:</p> <p>Main Accounting System, Budgetary Control and Stock Control are to be subject to a detailed review in 2018.</p> <p>Debtors (Business Income), Debtors (Non-Business Income) and Payroll were looked at in detail in 2017.</p> <p>Ordering &amp; Creditors (Working Expenses including Hired Carriers), Ordering &amp; Creditors (Business Income) and Asset Management were last looked at in detail in 2016.</p>
<b>Other Risk Based Audit Work</b>					
<p>Anti-Fraud and Bribery Arrangements.</p> <p><b>Linked to Strategic Risk SR-0006 - Financial Crime, Fraud, Bribery and or Corruption</b></p>	<p>Robust Anti-Fraud and Bribery Arrangements are essential to protect the organisation from the risk of Fraud.</p>	✓			<p>To review existing arrangements / have input to any new arrangements sufficient to ascertain their soundness / effectiveness.</p> <p>This item was deferred from the 2017 annual plan following agreement with Senior Management</p>
Searching for	To ensure that				

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<p>Fraud</p> <p><b>Linked to Strategic Risk SR-0006 - Financial Crime, Fraud, Bribery and or Corruption</b></p>	<p>controls established by the Organisation are operating as intended/risks of error / potential fraud are minimised</p>		✓	✓	<p>Any work required in this area to be agreed with YPO's senior management and / or Lead Authority Statutory Officers.</p>
<p>Adherence to Legislation</p> <p><b>Linked to strategic risk SR-0013 - Non-compliance with legislation and regulation.</b></p>	<p>Sound processes need to be in place to ensure compliance with GDPR (General Data Protection Regulations) which come into effect on the 25<sup>th</sup> May 2018.</p>	✓	✓	✓	<p>Audit work in 2018 will focus on compliance with GDPR.</p> <p>To cover other areas of legislation to ensure compliance in 2019 and 2020 as agreed with management.</p>
<p>Stock Control</p>	<p>Sound stock control arrangements need to be in place to ensure the effective function of the organisation.</p>	✓			<p>To review arrangements in place specifically linked to losses and the returns process as agreed with management.</p>
<p>Transport / Logistics</p> <p><b>Linked to strategic risk SR-00015 Inability to fulfil customer orders.</b></p>	<p>Effective arrangements are in place to ensure customer expectations are met and VFM achieved in relation to Transport costs</p>			✓	<p>The specific aspects of the review to be agreed with YPO's Senior Management.</p>
<p>Risk Management Arrangements / Strategic Risks</p>	<p>Sound arrangements are essential to mitigate key risks as far as practicable and thereby to allow achievement of the organisation's objectives.</p>	✓	✓	✓	<p>To have input to the review of strategic risks working alongside the Finance Business Partner – FTC in 2018. To test controls against one strategic risk (as a minimum) in 2019 and 2020. The risks to be tested to be agreed with management.</p>
<p>LINK</p>	<p>Success for this</p>	✓	✓		<p>Internal Audit</p>

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<p>Programme</p> <p><b>Linked to various strategic risks including:</b></p> <p><b>SR-0003 - Programmes and projects are not aligned to YPO's strategic objectives.</b></p> <p><b>SR-0009a - Inadequate IT infrastructure including IT capabilities, physical infrastructure, support and development.</b></p> <p><b>SR-0010 - Inefficient business processes.</b></p>	<p>major transformation project is critical to the future of YPO as an organisation.</p>				<p>involvement will be in providing support, and acting as a critical friend in challenging aspects of the project as it progresses in 2018 and 2019.</p>
<p>Warehouse Management System</p>	<p>To be developed to enhance changes being taken forward by the Head of Logistics and to align with the LINK programme.</p>	<p>✓</p>	<p>✓</p>		<p>To initially feed into the scoping of this system. To then subsequently have input to options appraisal, tendering and implementation processes.</p>
<p>Contracting</p> <p><b>Linked to strategic risk SR-0005 - Under achievement of sales forecast.</b></p>	<p>Supply contracts entered into for the benefit of YPO customers are critical to the success of the YPO business.</p>		<p>✓</p>		<p>To review arrangements in place linked to the establishment of supply contracts, or some other specific aspect of contractual arrangements as agreed with management.</p>
<p>Rebate Income</p>	<p>Rebate income is a significant</p>		<p>✓</p>		<p>To undertake a periodic review of rebate income</p>

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<p><b>Linked to strategic risk SR-0005 - Under achievement of sales forecast.</b></p>	<p>source of revenue to YPO.</p>				<p>to ensure adequacy of controls in place.</p>
<p>Business Planning</p> <p><b>Linked to various strategic risks including:</b></p> <p><b>SR-0001 - Lack of availability (or unacceptable cost) of adequate funds to fulfil the strategic plan.</b></p> <p><b>SR-0003 - Programmes and projects are not aligned to YPO's strategic objectives.</b></p> <p><b>SR-0008 Inadequate workforce skills to support organisational strategy.</b></p>	<p>Business planning is key to the achievement of the organisation's objectives.</p>		<p>✓</p>		<p>To review the annual business planning process to ensure that this is sufficiently sound to allow investment decisions to be made, and for the outcomes of the business planning process to clearly align to budget setting and delivery of the Organisation's 3-Year Strategy.</p>
<p>Limited Company</p>	<p>Success of the Limited Company is key to growth and profitability of the Organisation as a whole</p>			<p>✓</p>	<p>To review specific operational aspects of the Limited Company as agreed with YPO's senior management and / or Lead Authority Statutory Officers.</p>
<p>Review of IT arrangements in place within the Organisation</p>	<p>To ensure that the processes and controls in place are effective in ensuring the security; validity and accuracy of IT systems / networks.</p>			<p>✓</p>	<p>To review specific aspects of IT as agreed with YPO's senior management. To cover areas such as:</p> <ul style="list-style-type: none"> <li>- Network controls</li> <li>- Change controls</li> <li>- File controls</li> <li>- Application controls</li> </ul> <p>Audits in this area to</p>

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
					commence following conclusion of Link programme.
Business Continuity / Emergency Planning  <b>SR 0007 Inability to access key IT systems / business premises</b>	To ensure effective arrangements are in place to facilitate the continued operation of the Organisation in the face of a major event.		✓		Detail of the review to be agreed with YPO's senior management
Data Quality	To establish that the current protocols in place ensure the high standard of data quality in relation to management information is maintained			✓	The review would cover the adequacy of the overall Data quality policy / protocols in place and the extent to which it is adhered to.
Data controls	The security of data is essential to ensure adherence to GDPR and all aspects of data protection		✓		The review would cover continued adherence to GDPR / all aspects of data protection and to ensure the continued security of all data held by YPO.
Customer Engagement  <b>Links to strategic risk – SR0012 Poor customer service.</b>	The continued high levels of customer satisfaction are essential to the overall success of the organisation.			✓	The review would concentrate on aspects of the following: <ul style="list-style-type: none"> <li>- Overall effectiveness of the customer engagement process.</li> <li>- Analysis of changes to customer satisfaction levels &amp; reasons for this.</li> <li>- Achievement of KPIs</li> </ul>
Ongoing audit work at year-end.	Annual allocation for plan achievement. First priority in	✓	✓	✓	To complete all audits either not started or ongoing at the end of December 2017 year-

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<b>Linked to various YPO risks.</b>	new audit year.				end, as detailed within Internal Audit's 2017 Annual Report.
<b>Follow Up Audits</b>					
Follow up on work undertaken and reported previously.	To ensure control issues identified from previous audit reports have been adequately addressed.	✓	✓	✓	Confirming implementation of agreed actions arising from recent IA reports, with emphasis placed on reports issued with high priority actions.
<b>Liaison, Consultancy and Advice</b>					
Input to the YPO Committee function.  <b>Linked to various YPO strategic and operational risks depending on full nature of work.</b>	To keep Members of the YPO Committees sufficiently informed of Management and Internal Audit activities at YPO.	✓	✓	✓	Preparation of Internal Audit reports to YPO Committees.  Attendance at YPO Committee meetings to present reports.  Support as necessary to management attending YPO Committee meetings.  Input to Member development / training regarding audit-related issues.
Liaison, consultancy and advice.  <b>Linked to various YPO strategic and operational risks depending on full nature of work.</b>	It is important to respond to Management when advice is requested / required and to ensure adequate liaison takes place with a view to maintaining good working relationships.	✓	✓	✓	Audit resources utilised throughout the year as required.
<b>Additional chargeable activities</b>					
Investigate any	Input by Internal				Any work required in

## Agenda Page 78

Plan / Risk Area	Rationale For Review	2018	2019	2020	Comments
<p>areas of suspected fraud / irregularity.</p>	<p>Audit is essential to the proper independent investigation of some alleged irregularities. Poor investigations may lead to unacceptable outcomes and a continuance of the irregularity.</p>				<p>this area to be agreed with YPO's senior management and / or Lead Authority Statutory Officers and the Plan adjusted accordingly.</p>

YPO Internal Audit Plan 2018 to 2020.



**YPO**  
**MANAGEMENT COMMITTEE**  
**TO BE HELD ON**  
**23<sup>RD</sup> MARCH 2018**

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

**REPORT OF: HEAD OF FINANCE**

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**1. BACKGROUND INFORMATION**

- 1.1 The Financial Procedure Rules are a key element of YPO's governance arrangements and make a clear, transparent statement that aims to promote the highest standards in financial management and activity.
- 1.2 The Financial Procedure Rules should be reviewed and updated on a regular basis to ensure compliance with current regulations and best practice and to consult founder members, as set out in the Management Agreement.
- 1.3 The revised Rules are attached at Appendix 1. Usual practice is to show 'track changes' so that any amendments are immediately obvious. However, this year, the rules have been modernised, moving away from the legal style they were written in to more everyday language that helps to meet the need stated in the rules that they should be clear, understandable and transparent. As a result, using track changes throughout the document would have made it very difficult to read.
- 1.4 No material changes have been made as a result of the re-write but two additional amendments have been made on Page 5 of the Financial Procedure Rules (which are shown with track changes) and attention is drawn to these below:
  - Section 7 Disbursements – Payroll: the original paragraph 7.5 read: "*No officer of the Organisation shall, under cover of their office, accept any fee or reward other than their proper remuneration.*" It is proposed that this paragraph is deleted as it does not relate to this section (though may be relevant to the Employee Code of Conduct).
  - Section 7 Disbursements – Orders for Work, Goods and Services has been extended to include Stock, and strengthened to ensure a central register of officers authorised to raise and approve orders and their authorisation levels is put together.
- 1.5 In addition to the above, the Financial Procedure Rules have been separated out from Standing Orders for Contracts so that they stand alone as a separate document. It is hoped that this will make them easier to find and use and to facilitate training.
- 1.6 Although there are few material changes to the Rules it is important that staff are reminded of them and the obligations they place on them, and that those staff directly affected by them are required to attend training.

- 1.7 Standing Orders for Contracts have also been reviewed and there are no changes to them.
- 2. STRATEGIC IMPLICATIONS**
  - 2.1 The update reflects any changes in regulations and best practice and improved controls in some aspects of financial management.
- 3. FINANCIAL/RESOURCE IMPLICATIONS**
  - 3.1 There are no additional financial or resource implications arising from this report.
- 4. LEGAL IMPLICATIONS**
  - 4.1 There are no legal implications arising from this report.
- 5. RISK IMPLICATIONS**
  - 5.1 There is a risk that officers will not comply with the Financial Procedure Rules: this risk will be mitigated by ensuring that mandatory training takes place for all relevant staff.
- 6. CONSULTATION**
  - 6.1 The Finance and Contracts Management Team and the Executive Director have been consulted in the preparation of this report and the revised Financial Procedure Rules.
  - 6.2 The revised document was admitted to the Audit & Scrutiny Sub Committee held on 16<sup>th</sup> February 2018 where it was agreed to recommend for approval to the full Management Committee.
- 7. OPTIONS APPRAISAL**
  - 7.1 None: the Financial Procedure Rules are a key element of YPO's governance arrangements and regular update ensures they reflect the most up to date regulation.
- 8. RECOMMENDATIONS**
  - 8.1 That the Management Committee note the revised Financial Procedure Rules at Appendix 1.
- 9. REASONS FOR RECOMMENDATIONS**
  - 9.1 Financial Procedure Rules are a key element of YPO's governance arrangements.

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

YPO  
41 Industrial Park  
Wakefield  
WF2 0XE

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

**CONTACT OFFICER: STEVEN HALL, HEAD OF FINANCE**

YPO  
41 Industrial Park  
Wakefield  
WF2 0XE

Telephone No: 01924 821775  
E-mail address: steven.hall@ypo.co.uk

**APPENDICES**

*Appendix 1: Financial Procedure Rules*

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**Financial Procedure Rules**

**1 DEFINITIONS**

- 1.1 Please see Appendix 1 for definitions of key terms.

**2 INTRODUCTION**

- 2.1 Financial Procedure Rules are a key element of YPO's governance arrangements. They make a clear, understandable and transparent statement that aims to promote the highest standards in financial management and activity, ensuring probity, integrity, accountability and impartiality.

**3 RESPONSIBILITY FOR OBSERVANCE**

- 3.1 The Management Committee is responsible for regulating and controlling YPO's finances. The Financial Procedure Rules apply to all Members of the Management Committee and to Officers acting on behalf of YPO. The Management Committee is empowered to delegate any of its responsibilities in these rules to a Sub-Committee of not less than one third of its membership, subject to an annual report to the Management Committee on the operation of these rules.
- 3.2 For the purpose of S151 of the Local Government Act 1972 and S114 of the Local Government Finance Act 1988 the Chief Financial Officer is responsible for the proper administration of YPO's finances and for ensuring, where appropriate, that any breaches of these rules are reported to the Management Committee.
- 3.3 The Managing Director will operate in accordance with these rules, Standing Orders for Contracts and the Managing Director's Scheme of Delegation with respect to any matter liable to affect YPO's finances. The Managing Director will provide the Management Committee with such financial and business information as may be reasonably required by them to fulfil their duties.
- 3.4 The Managing Director will meet the Chief Financial Officer (or their nominee) regularly to discuss YPO's financial matters and provide them with the financial information required to fulfil their duties. The Managing Director will inform the Chief Financial Officer of all matters relevant to YPO's financial management and stewardship in accordance with professional standards and codes of practice.
- 3.5 The Managing Director will report to the Chief Financial Officer if they believe that actual or predicted annual outturn is not, or may not be, in line with the budget; or if there are material changes in predicted annual income or expenditure or a significant risk of this.
- 3.6 The Managing Director will report to the Chief Financial Officer and Internal Audit any actual or suspected financial impropriety in accordance with YPO's Anti-Fraud and Bribery Policy and Fraud Response Plan.
- 3.7 The Managing Director is responsible for ensuring that all staff are aware of the Financial Procedure Rules, in particular those which apply to individual members of staff, and that they comply with them at all times.

**Financial Procedure Rules**

**4 BUDGETS**

- 4.1 The Managing Director will prepare annual budgets and seek the comments of the Chief Financial Officer before submitting them to the Management Committee for approval. These budgets will support YPO's operational plans and include revenue, people costs and investment requests (capital and revenue).
- 4.2 Unless specifically indicated otherwise, and subject to compliance with Standing Orders for Contracts, the inclusion of any item in the approved budget gives the Managing Director authority to incur the expenditure.
- 4.3 The Managing Director will ensure that adequate and effective budgetary control and monitoring is in place to identify, analyse and report any significant overspends.
- 4.4 The Managing Director is responsible for ensuring that overspends on approved budgets related to business volumes are reasonable, necessary, and matched, or exceeded by, corresponding increases in income.
- 4.5 The Managing Director is responsible for ensuring that overspending on approved budgets by budget holders, not directly related to business volumes, does not occur. In the event that it does occur, the Managing Director will report such overspends to the Chief Financial Officer immediately and at the next meeting of the Management Committee.
- 4.6 The Managing Director must present any proposal which would materially affect YPO's surplus / deficit or an existing business policy to the Management Committee for approval before any commitment is made. If urgent action is needed, the Managing Director will consult the Chief Financial Officer, and the Chairman, or Vice-Chairman of the Management Committee, and present a report at the next meeting of the Management Committee.
- 4.7 The Managing Director will produce a monthly income and expenditure report and make it available to the Chief Financial Officer and member authorities on request. The Managing Director will report YPO's financial position at each Management Committee meeting. The Managing Director will provide the Management Committee with an annual statement of account detailing actual results against budget for the financial period, along with an explanation of any significant variances.

**Virement / Transfer of Budgets**

- 4.8 The Managing Director can approve transfers between budgets up to the maximum amount stated in Appendix 2, providing that no change of policy or commitment to further ongoing expenditure is made. Transfers above the maximum amount stated in Appendix 2, or where a change in policy is involved, must be approved by the Management Committee.

**Financial Procedure Rules**

**5 INCOME**

- 5.1 The Managing Director, in consultation with the Chief Financial Officer, will agree a format for all income records, that must be used at all times.
- 5.2 Wherever practical and possible, at least two members of staff will be present when post is opened, to provide assurance that monies received are properly identified and recorded. Members of staff who receive monies on YPO's behalf are responsible for safe guarding them and paying them into YPO's bank accounts at a frequency agreed by the Managing Director.
- 5.3 The Managing Director, in consultation with the Chief Financial Officer, will put safeguards and controls in place for the transfer of YPO's money between staff.
- 5.4 The Managing Director will maintain a register of surpluses and deficits and ensure that it is made available to the Chief Financial Officer on request. All cash surpluses will be paid in. The Managing Director will have the discretion to make good cash shortages, or not.
- 5.5 Refunds of overpayments must be made through the payments system and not out of income.
- 5.6 The Managing Director, in consultation with the Chief Financial Officer, will determine the means of collection of income due to YPO. All accounts for income due will be prepared and despatched in accordance with these arrangements.
- 5.7 The Managing Director may approve the write off of irrecoverable invoice debts up to the limit in Appendix 2. The Managing Director will report to the Management Committee any individual write off that exceeds the limit. The annual provision for write offs will be identifiable in the financial accounts.

**6 STOCKS, ASSETS and INVENTORIES**

- 6.1 The Managing Director is responsible for the care and custody of all YPO stocks and assets under their control.
- 6.2 The Managing Director, in consultation with the Chief Financial Officer, will ensure adequate controls are in place for goods ordered to be received into the warehouse, recorded and kept secure.
- 6.3 The Managing Director, in consultation with the Chief Financial Officer, will ensure adequate controls are in place for stores accounts and records.
- 6.4 The Managing Director will arrange for continuous independent checking off all stores items at least annually and maintain a register of all stores surpluses, deficiencies and adjustments. This will be reported to the Management Committee annually and made available to the Chief Financial Officer on request.
- 6.5 The Managing Director will agree with the Management Committee a policy for the disposal of surplus and obsolete stock and ensure that staff comply with this.

## Financial Procedure Rules

- 6.6 The Managing Director may approve the write off of obsolete stock up to the limit in Appendix 2. The Managing Director will report to the Management Committee any individual write off that exceeds the limit. The annual provision for write offs will be identifiable in the financial accounts.
- 6.7 Stores will be valued in YPO's accounts using a recognised accounting standard.
- 6.8 The Managing Director is responsible for ensuring the safe custody of YPO's assets and that they will not be removed or used other than for YPO's business purposes, except where specifically instructed otherwise.
- 6.9 The Managing Director will maintain inventories of items of furniture, fittings, plant, machinery and equipment with a value greater than £500 and make arrangements for these to be checked at least annually.
- 6.10 The Managing Director will arrange for senior members of YPO staff to be safe and store key holders. Wherever possible, keys should be kept about the key holders' person and not be left on the premises. Where keys are kept on the premises they should be kept in secure key safes.
- 6.11 The Lead Authority will maintain a register of all land and buildings owned by, or held in trust for, YPO, recording the location, extent and plan references, purchase details, particulars of any tenancies granted, and the purpose for which the property is held. The Lead Authority will retain secure custody of all title deeds.
- 6.12 Sales of assets not bought for resale must not be made to members or YPO officers without prior consultation with the Management Committee. A written record must be kept of any sales. At least three tenders must be obtained before assets valued in excess of the limit set out in Appendix 2 (excluding land and buildings) can be sold, except where the Management Committee has approved other arrangements for a particular sale or type of sale.

## 7 DISBURSEMENTS

### Payroll

- 7.1 The Chief Financial Officer will approve the method of payroll preparation, payment, the documents to be kept and the certificates to be given for payment of wages.
- 7.2 The Managing Director will notify the lead authority, on the date and in the manner agreed, of all employee appointments, dismissals, resignations, absences from duty, suspensions, transfers and changes to remuneration (other than the usual increments).
- 7.3 The Managing Director is responsible for the correct completion and certification of time and incentive bonus payment records and for forwarding payroll data to the lead authority on the date and in the manner agreed.
- 7.4 All employees will be appointed in accordance with YPO regulations to approved establishment grades and rates of pay.

## Financial Procedure Rules

### Imprest Accounts / Petty Cash

- 7.5 The Chief Financial Officer will arrange for the Lead Authority's bankers to provide any necessary cash imprest accounts. The Managing Director is responsible for establishing procedures and limits for imprest accounts and ensuring that these procedures are adhered to. Imprest holders will ensure that imprest accounts are not in overdraft at any time.

### Orders for Work, Goods, Services and Stock

- 7.6 All orders, whether placed electronically, in writing, or verbally, commit YPO to incurring expenditure. Every Head of Department is responsible for orders placed by officers in their department and must ensure that:
- All works, goods, services and stock are procured using an official order and verbal orders are followed up immediately with an official order.
  - An official order number is always given to the supplier except where the supply is exempt from this (eg utility payments, petty cash).
  - All orders comply with Financial Procedure Rules and Standing Orders for Contracts including any requirement for quotations or tenders.
- 7.7 The Managing Director will maintain a register listing Directors and other senior managers authorised to approve orders and their authorisation limits. Any order must be certified by someone other than the officer who raised it.

### Creditor Payments

- 7.8 The Managing Director will maintain a register listing Directors and other senior managers authorised to certify payment of invoices and their authorisation limits. Any invoice must be certified by someone other than the officer who raised the order.
- 7.9 When certifying an invoice for payment, the nominated officer is confirming that:
- The goods or services have been properly ordered
  - Arrangements have been made to ensure that goods have been received and checked for quality and quantity
  - Arrangements have been made to ensure that work done or service rendered has been carried out satisfactorily and that, where applicable, materials used were to a requisite standard
  - Prices are in accordance with the contract or quotation where either exists, or are otherwise reasonable
  - The invoice is arithmetically correct
  - The appropriate deductions for discounts will be made and the appropriate terms applied
  - Where applicable, the goods have been or will be recorded in YPO's inventory, stores or other appropriate record
  - Expenditure has been correctly coded

### **Financial Procedure Rules**

- Payment has been processed in the appropriate manner and no part of the invoice has been previously passed for payment
- Where goods or services are for direct use by YPO the expenditure is within budget or covered by special financial provision
- Where applicable, the order to which the invoice relates has been marked paid
- Standing Orders for Contracts have been complied with

- 7.10 All copy invoices certified for payment must be accompanied by a special authority signed by an officer authorised to certify invoices.
- 7.11 The Managing Director may examine any invoice certified for payment and receive any additional information or explanation required before it is authorised.
- 7.12 The Managing Director will authorise a number of officers to hold Procurement Cards, which must only be used in accordance with the Payment Card Manual. The Managing Director will ensure that expenditure incurred is in accordance with YPO's Standing Orders for Contracts, Financial Procedure Rules and other relevant policies. Where relevant, VAT receipts must be obtained and submitted for taxation purposes.
- 7.13 Other than procurement cards and imprest accounts, YPO's usual method of payment will be by BACS transfer, or other financial instrument drawn by the Chief Financial Officer on the appropriate bank accounts.

### **8 CAPITAL AND INVESTMENT REQUIREMENTS**

- 8.1 The Managing Director, in consultation with the Chief Financial Officer, will determine the format of an investment requirement statement, the process and timetable for preparing and submitting completed statements for approval by the Management Committee. The statement must clearly state the purpose of the investment expenditure, how it is to be funded, and any ongoing revenue implications. Any borrowing requirement must be prepared in liaison with the Treasury Management section of the Lead Authority and be agreed with the Chief Financial Officer.
- 8.2 Once approved, the inclusion of items in the statement gives the Managing Director the authority to incur expenditure without further reference to the Management Committee.
- 8.3 Where expenditure is incurred on investment projects without first being included in an approved investment requirement statement, in accordance with the Scheme of Delegation, the Managing Director will consult the Chief Financial Officer, and the Chairman, or Vice-Chairman of the Management Committee, and present a report at the next meeting of the Management Committee. This also applies to overspends on approved statements, in excess of the limit set out in Appendix 2.
- 8.4 The Managing Director will report both physical and financial progress of investments to the Management Committee at least annually and as part of the annual business planning update.

**Financial Procedure Rules**

- 8.5 Investment financing must be considered at the inception of the business case, as well as whether it is revenue or capital expenditure. Capital investment should be made in accordance with the Capital Policy.

**9 RESERVES**

- 9.1 The Managing Director, in consultation with the Chief Financial Officer, will determine the format of a reserve creation statement, the process and timetable for preparing and submitting completed statements for approval by the Management Committee. The statement must clearly state the purpose of the reserve.
- 9.2 Once approved, the inclusion of items in the statement gives the Managing Director the authority to incur expenditure without further reference to the Management Committee.
- 9.3 Any changes to the use of reserves is subject to consultation by the Managing Director, as specified in the Managing Director's Scheme of Delegation, with the Chairman and / or Vice-Chairman of the Management Committee and the Chief Financial Officer and a report to the Management Committee at the earliest opportunity.

**10 ACCOUNTING, TAXATION AND STATISTICAL RETURNS**

- 10.1 The Managing Director, in consultation with the Chief Financial Officer will approve all financial records and systems, and changes to them, in accordance with relevant legislation and best practice. The Managing Director is responsible for ensuring that all such records and systems are maintained.
- 10.2 The Managing Director will ensure accounting duties are allocated amongst finance staff to ensure separation of duties between handling cash and disbursements, accounting for them, and checking balances.
- 10.3 Financial records must be disposed of in accordance with retention and disposal regulations as approved by the Managing Director.
- 10.4 The Managing Director is responsible for all matters relating to taxation, except for pay related taxation which is the responsibility of the Chief Financial Officer.
- 10.5 The Managing Director, in consultation with the Chief Financial Officer and the External Auditor (where necessary) is responsible for the publication of financial and statistical data. The Chief Financial Officer has the authority to request such financial and statistical information as they deem necessary to fulfil their statutory responsibilities.
- 10.6 The Managing Director is responsible for all procedures relating to HM Revenue and Customs matters and Value Added Tax (VAT) and for ensuring that relevant staff are provided with up to date guidance on these matters.

## Financial Procedure Rules

### 11 INTERNAL AUDIT

11.1 The Chief Financial Officer will carry out an independent and continuous appraisal of accounting, financial and other processes, in accordance with relevant standards, with the following objectives:

- To ensure the establishment of soundly based controls within each area of YPO
- To review and, where necessary, make recommendations for the improvement of systems, controls and procedures to ensure they are efficient and effective, remain adequate in changing circumstances; and are adhered to in practice
- To assist in protecting YPO's assets and interests by carrying out a continuous examination of activities in order to test the arrangements in place to detect fraud, misappropriation, irregular expenditure, and losses due to waste, extravagance and maladministration
- To monitor compliance with YPO's Anti-Fraud and Bribery Policy
- To monitor the use of resources in the pursuit of YPO's defined objectives
- To ensure the suitability and reliability of financial and other management information used by YPO
- To report to, and advise, the Managing Director of appropriate actions to be taken in relation to Financial Procedure Rules and Standing Orders for Contracts

11.2 The Chief Financial Officer, or their authorised representative, has the authority to:

- Enter YPO premises or land at all reasonable times
- Have access on demand to all records, documents and correspondence relating to YPO's financial and other transactions
- Require and receive such explanations as are necessary concerning any matter under investigation
- Require any employee of YPO to produce stocks or assets under their control or to provide information and explanation of matters within their responsibility.

11.3 The Managing Director will ensure that any matter that involves or is thought to involve irregularities concerning YPO's finances, assets or stocks, or in the exercise of YPO's functions, is dealt with in accordance with the Anti-Fraud and Bribery Policy. This includes, but is not limited to, notifying the Chief Financial Officer and Internal Audit of all steps planned and taken and taking any steps required by them.

### 12 EXTERNAL AUDIT

12.1 The Managing Director will ensure that External Audit is given access at all reasonable times to YPO premises, personnel, documents, and assets that they consider necessary for the purpose of their work.

12.2 The Managing Director will ensure that there is effective liaison between External Audit and Internal Audit.

12.3 The Managing Director and Chief Financial Officer will be the first point of contact with External Audit as they undertake the annual audit programme.

**Financial Procedure Rules**

**13 BANKING ARRANGEMENTS**

- 13.1 The Chief Financial Officer will make arrangements for the opening and operation of YPO's bank accounts and will be responsible for the negotiation of banking terms.
- 13.2 The Managing Director will control the ordering and issuing of cheques. On issue they will bear the printed facsimile signature of the Chief Financial Officer or be signed by the Managing Director or an officer authorised by them.
- 13.3 The Managing Director will ensure that all treasury management transactions are undertaken in accordance with best practice and the Chief Financial Officer's requirements. The Head of Finance will periodically review such transactions.

**14 INSURANCE**

- 14.1 The Managing Director will ensure that YPO has proper insurance cover to meet its needs.
- 14.2 The Managing Director will effect all insurance cover and negotiate settlement of all claims against the insurance cover in consultation with the Chief Financial Officer.
- 14.3 Senior Managers will notify the Head of Finance in writing of any changes to circumstances that might affect insurance arrangements including any new risks, properties, assets or vehicles that it may be appropriate to insure.
- 14.4 Senior Managers will notify the Head of Finance in writing of any loss, liability or damage that may lead to a claim against YPO, and the Police where it is appropriate to do so.
- 14.5 The Managing Director will instruct all employees, and anyone else covered by YPO's insurance arrangements, not to admit liability or make an offer to pay compensation.
- 14.6 The Managing Director will ensure that all appropriate employees are covered by fidelity guarantee insurance.
- 14.7 The Chief Financial Officer will review YPO's insurance arrangements at least annually or more frequently if they consider necessary.
- 14.8 Senior Managers will consult the Chief Financial Officer on the terms of any indemnity they are requested or required to provide.

**15 RISK MANAGEMENT**

- 15.1 The Managing Director is responsible for ensuring that YPO has a Risk Management Framework, Policy and Strategy approved by the Management Committee, and that strategic and operational risks (including financial risks) are identified, evaluated and controlled in accordance with this Framework.

**Financial Procedure Rules**

**16 CREDIT RISK AND CREDIT CONTROL**

- 16.1 The Head of Finance is responsible for managing credit control and credit risk within YPO.
- 16.2 All new customers will be required to complete an application for which will help to establish their status as a legal entity.
- 16.3 From the application form, details will be obtained to perform a check with a credit reference agency to confirm the identity of the customer.
- 16.4 A credit limit will be set in accordance with the advice of the credit reference agency. In the event that this advice is a nil credit limit, an account will be opened only to facilitate the processing of orders paid by cash in advance. Should the customer place an order above the credit limit, a Director or Member of the Senior Leadership Team will decide whether or not the order should be processed.

**17 UNOFFICIAL FUNDS**

- 17.1 Any proposal to set up or hold unofficial funds (ie those that do not relate to YPO's business activities) must be agreed in advance by a member of the YPO Board.
- 17.2 A separate bank account must be held for each unofficial fund and all transactions must be kept separate from YPO business transactions.
- 17.3 Each fund must be managed by a nominated member of the Senior Leadership Team who is responsible for ensuring that the fund is subject to third party audit and that accounts are prepared annually or in accordance with the relevant governing statutory instrument.
- 17.4 The YPO Board will have immediate access to all unofficial fund records and the fund owner must inform the Board immediately of any known or suspected irregularities.

**18 GENERAL**

- 18.1 The Managing Director will produce a Performance Report, in a format agreed with the Chief Financial Officer and the Management Committee, and present it to the Management Committee on a quarterly basis, and on request to the Chief Financial Officer and YPO Members.
- 18.2 All reports to the Management Committee and sub-committees must include a section headed 'Financial Implications'. Report authors must complete this section with detailed information on the financial and other resource implications of the actions proposed in the report, in consultation with the Head of Finance before the report is finalised. The Head of Finance and, where appropriate, the Managing Director, will be given the opportunity to add their comments to the report.

**Financial Procedure Rules**

- 18.3 The Managing Director and Members of the YPO Board will provide annual assurance statements regarding YPO's governance arrangements for the preparation of the Annual Governance Statement.

**19 INTERPRETATION**

- 19.1 The Management Committee, in consultation with the Lead Authority's Monitoring Officer and Chief Financial Officer, will settle any differences that arise from the interpretation of these Financial Procedure Rules.

## Financial Procedure Rules

### Appendix 1 Definitions for Financial Procedure Rule and Standing Orders for Contracts

**“Organisation”** means the consortium of local authorities known as Yorkshire Purchasing Organisation (YPO)

**“Managing Director”** means the current Managing Director of the Yorkshire Purchasing Organisation or an officer designated by him/her.

**“Monitoring Officer”** means an officer designated by Lead Authority responsible to the Management Committee of the Organisation who will secure legal and administrative services for the Organisation (other than the administrative services performed by the Managing Director or other officer designated by him/her)

**“Chief Financial Officer”** means the current Director of Finance of the Lead Authority responsible to the Management Committee of the Organisation for providing financial advice to the Organisation (other than the financial services performed by the Managing Director or other officers designated by him/her). In fulfilling this role the Chief Financial Officer will be able to rely on the Managing Director of the Organisation to keep him/her informed on all aspects of his/her role relating to the Organisation under Section 151 of the Local Government Act 1972, including compliance with the rules forming the Financial Procedure Rules and Standing Orders relating to Contracts of the Organisation.

**“Management Committee”** means the elected members of the Organisation constituting its Management Committee and any of its Sub Committees.

**“Lead Authority”** is the member authority chosen by the Management Committee to provide support services to the Organisation.

**“Chairperson”** means the current Chairperson of the Management Committee.

**“Framework”** means an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price, quality and where appropriate the quantity envisaged.

**“Contract”** means an agreement made by the Organisation with another party creating a legal relationship enforceable by law.

**“Goods”** includes all supplies and materials that the Organisation purchases or obtains.

**“Services”** includes all services, which the Organisation purchases or obtains including but not limited to advice, consultancy, agency staff, third party logistics etc.

**“Works”** includes the construction of new buildings and works, restoring and common repairs.

**“Whole Life Costs”** means the whole costs of the provision of the works, goods and/or services **from inception to disposal** including any annual maintenance costs or annual fees (i.e. software licences)

**“OJEU”** means the Official Journal of the European Union.

Financial Procedure Rules

**Appendix 2 Authorisation Limits for Finance Procedure Rules and Standing Orders for Contracts**

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

Standing Orders for Contracts

*Section 21.2*

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

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

Financial Procedure Rules

Section 4.8 Limit on transfers between heads of expenditure £50,000

Section 5.7 Limit for the writing off of individual customer debt £5,000  
 Up to £500 Sales Ledger Manager  
 £500 - £5000 Head of Finance or Financial Controller

Section 6.6 Limit for writing off stock  
 Up to £500 Asset Management Supervisor  
 £500 - £5000 Head of Finance or Financial Controller

Section 6.12 Limit on the sale of Assets not bought for resale £10,000

Section 8.3 Limit on overspends on investment projects 10% or £50,000 whichever is the lesser

Section 7.5 Limit on cash payments from imprest accounts £100

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~~Refer to Part 1 of Schedule 12A of the Land Information Management Act 1972.~~

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Part 1 of Schedule 1A of the Information Act 1972.

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