

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

DATE: 29 JUNE 2007

AGENDA ITEM NO: **5**

SUBJECT: STATEMENT OF INTERNAL CONTROL

Report of the Clerk and Chief Financial Officer

1. MATTER FOR CONSIDERATION

- 1.1. To consider the Statement of Internal Control to be included in the 2006/07 accounts and the supporting evidence.

2. INFORMATION

Background (Appendix A)

- 2.1 The arrangements for internal control within the Authority are under constant review and being updated. It is good practice, and a requirement of the regulations, that Members continuously monitor the arrangements and satisfy themselves that those arrangements are sufficiently robust and are operating satisfactorily.
- 2.2 The final accounts for 2006/07 are included elsewhere on the agenda and incorporate the latest SIC. In preparing that document, which is attached to this report as appendix A, reports previously brought to the Audit and Governance Committee were considered along with Internal and External Audit reports received, general management arrangements and a background assessment made of the overall control environment.
- 2.3 The SIC is a comprehensive statement covering all aspects of the control environment. Members are being asked to satisfy themselves that the control environment is satisfactory, operating effectively and that the SIC itself is a reasonable statement of the situation and that the Chairman should be authorised to sign it. The following has therefore been included to assist members to form their opinion.

Terms of reference for the Committee (Appendix B)

- 2.4 The Audit and Governance Committee in March decided they wished to receive regular reports to monitor the capital and revenue expenditure of the Authority and Executive. The terms of reference for the committee have therefore been amended at the Authority's annual meeting and are attached for information.

- 2.5 However, as this meeting is considering the final accounts for 2006/07 and the meeting is taking place within the first three months of the year there is little new to report. It is therefore intended that the first monitoring report under these terms of reference will be brought to the September meeting of the committee.

Matters considered by the committee earlier in the year

- 2.6 These commenced with a report on the background and setting up of the committee and a presentation by the Audit Commission, a full programme for the year's meetings and was followed by the receipt of a document giving practical guidance to members of an Audit Committee. Other reports covered a number of internal control matters including:

Internal and External Audit plans for the year

Approval of the 2005/06 final accounts and receipt of the external auditor's opinion and governance reports

Regular reports from the Internal Auditor

Regular reports on Risks

Protocols for Members/Officers and one for the Monitoring Officer

Role of the Clerk/Director General and of Non-Executive Directors for the Executive

The signing of the service level agreement with Leeds City Council

The antifraud and Corruption policy

Internal control arrangements and staff instructions

A comprehensive performance assessment

Security measures at Wellington House

Regular reports on regional governance issues

Whilst none of these, even when taken together, are comprehensive they all go to build up a picture for Members in considering the adequacy of the arrangements in place.

Revised control documents approved by the Authority

- 2.7 Many elements of the control environment are dealt with directly by Members. Corporate policies and objectives are initially approved by the Authority through its working groups, regular monitoring takes place through them and they receive regular reports on external reviews which take place such as IIP assessments, LTP reviews, audit reports etc.

- 2.8 A summary of the evidence of the control environment has been included as **Appendix C** to demonstrate that not only are matters specifically considered by this committee as shown above but that there are also a large number of other areas involved. These cover both the general decision making processes of the Authority as well as the internal management arrangements of weekly, monthly and quarterly governance related meetings taking place.
- 2.9 To ensure that matters are adequately dealt with the annual meeting of the Authority on 22 June 2007 reviewed and approved the committee structure and their terms of reference. They also approved the following central control documents which will be published in the 'red book' together with the membership arrangements of the Authority and its committees and is being sent to all members:

Standing Orders – these are included in a separate report elsewhere on the agenda

The new Members Code of Conduct and the Members/Officers Protocol

Financial Regulations

Members Allowance Scheme

The Standards Committee has received reports on declarations of interest, gifts and hospitality, payments made under the members allowance scheme and a revised scheme for 2007/08. It also discussed a new Code of Conduct scheme prior to it being approved at the Authority meeting on 22 June 2007. The registers are regularly reviewed by the Clerk. In addition all members signed a declaration of interest form before the annual meeting.

Position regarding alleged fraud

- 2.10 An alleged fraud was discovered during 2005 involving an officer in another authority working on behalf of the PTA. Although the matter is in the hands of the Fraud Squad in relation to the prosecution, Officers have been proceeding with recovery arrangements with respect to other parties who are considered to be at fault.
- 2.11 The officer concerned was dismissed by his authority, has been charged and has appeared in court. It is clearly unacceptable to include written comments on the case prior to the completion of any prosecution but Officers will orally answer any questions members may have. At the time all systems involved were immediately reviewed and amended where appropriate. New certification arrangements for the cash book and borrowing undertaken by Leeds City Council were implemented. The new arrangements are considered to be working satisfactorily with certifications being received on time and the level of service from Leeds being excellent.

- 2.12 Whilst the recoveries have been shown in the accounts for 2006/07 and appear as miscellaneous income the actual cash was received after 31 March 2007. It has therefore been accrued for so that, in financial terms, the situation is now finalised except for the completion of the court case and for any residual recovery which may be achieved from the officer's other assets. It is anticipated that a final report will be made to Members at the September meeting of the committee.

Audit assurances

- 2.13 The Audit Commission has undertaken an interim audit of systems of the Authority and Executive. They have reported nothing of significance and all findings will be incorporated into their annual governance report which will be presented to the next meeting of the committee.
- 2.14 Internal Audit have undertaken their annual review of systems and produced the attached report (**Appendix D**). As members will see there are no significant points of concern.
- 2.15 In coming to their assessment of the adequacy of the internal control environment members are entitled to rely on the audit reviews although they cannot provide absolute assurance and are only an element of assurance.
- 2.16 There is a further consideration as the Authority are required to review the effectiveness of their system of Internal Audit. This is particularly difficult for the Authority in that they do not employ an internal auditor direct but make use of the internal auditors of the Executive and Leeds City Council. Officers have therefore undertaken such a review in conjunction with the Officers of the Executive. The results of that review were reported to the Executive Board, a copy of which is attached as **Appendix E**.
- 2.17 It will be seen from the attached report that it is considered that Internal Audit is operating effectively in the light of the evidence available.

Risk Matters (Appendix F)

- 2.18 The Risk register (Appendix F) for the Authority is reviewed bi-monthly by officers jointly with the Executive's Risk register. There has been no change in the risks identified. The risks arising from the determination of the First appeal are ongoing but are being considered specifically by the full Authority. The cost in 2006/07 is built into the final accounts.
- 2.19 At the last meeting members requested that the scoring of the risk register be reviewed. This has been done in conjunction with Internal Audit. A slightly amended scoring system has been adopted and will be included as an aide memoir at the end of each Risk register.

2.20 The scoring system is as follows:

Initially the risk is assessed on a grade of 1 to 5 indicating how serious it would be if it occurred and then what the likelihood of it occurring is if no preventative measures were put in place. The actual rating is then simply the two figures multiplied together with 25 being the highest possible risk.

The preventative measures considered appropriate are then listed.

As a result of those preventative measures the impact of the risk, should it occur, will still be the same but the likelihood of the risk occurring should have reduced on the following scale:

- 1 highly unlikely to occur
- 2 not likely but it could occur – needs a regular check
- 3 possible but should be mitigated – is it acceptable? - needs watching
- 4 quite likely – is there a better mitigation method? – must be monitored on a very regular basis
- 5 highly likely – this should never appear but if it does then requires discussion on reasons and mitigation measures

2.21 In addition to the above revamping of the scoring there has been a general reconsideration of the scores. Therefore, following the latest reappraisal Members are asked if they are satisfied with the scores shown or if they would wish them changed.

2.22 The Executive's Audit Committee receives quarterly schedules of control actions. At their last meeting the Committee received a schedule indicating that all such actions were up to date. In addition the Chief Financial Officer holds a quarterly governance meeting. At the last meeting of that group certifications were received from Leeds City Council concerning the accuracy of the transactions related to investments and borrowing and officers reported that bank reconciliations and accounting postings were up to date.

Conclusion

2.23 As stated earlier it is a requirement of the accounting regulations that a SIC is included in the accounts and is signed by the Chairman and Clerk on behalf of the Authority. The SIC must effectively say that they are satisfied that there are proper control systems in place and that they are working satisfactorily.

2.24 Members are asked to accept that from the reports which have previously been presented, together with evidence set out in this report, the current control environment is operating satisfactorily. As a

consequence Members are also being asked to authorise the signing of the SIC.

3. FINANCIAL AND LEGAL IMPLICATIONS

3.1 None directly arising from this report.

4. STAFFING IMPLICATIONS

4.1 None directly arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1 None directly arising from this report.

6. RECOMMENDATIONS

6.1 That the Chairman and the Clerk to the Authority be recommended to sign the SIC.

**Clerk and Chief Financial Officer
West Yorkshire Passenger Transport Authority**