

Annual Governance Report

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# Annual Governance Report

**West Yorkshire Passenger Transport Authority**

**Audit 2007/08**

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### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## Summary

### Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

### Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements.
- 4 The financial statements submitted for audit were provided in accordance with our timescale. One material amendment was made to the pension deficit and reserve balances in the group Accounts to reflect revised actuarial figures. A number of non-material amendments were also made. The amendments do not affect the overall financial position of the Authority.

### Value for Money

- 5 We expect to issue an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

### Next steps

- 6 We ask the Audit and Governance Committee to:
  - consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
  - agree to adjust the financial statements as set out in our recommendations;
  - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate; and
  - agree the proposed action plan.

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## Financial statements and Annual Governance Statement

- 7 The Authority's financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 8 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9 In addition, auditing standards require us to report to you:
  - the draft representation letter which we are asking management and you to sign;
  - our views about the Authority's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

### Key areas of judgement and audit risk

- 10 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Changes to the SORP 2007 (2007/08 Audit Plan)	The Authority has taken the 2007 SORP into account when drafting and revising the 2007/08 accounts. The Authority should ensure that it has access to the SORP guidance notes when drafting the financial statements to ensure that all changes in accounting treatment are addressed.

### **Recommendation**

*R1 The Authority should ensure that it has access to the SORP guidance notes when drafting the financial statements to ensure that all changes in accounting treatment are addressed.*

### **Draft representation letter**

**11** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:

- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
- you have approved the financial statements;
- you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
- you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
- you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
- you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
- you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
- you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
- you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
- cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.

**12** We need specific representations from you about:

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- the material completeness of the 'pre-paid ticket income' because the Executive does not have agreements in place for all organisations that sell the tickets and pass the income onto the Executive (relevant to group accounts) and
- The reason for not amending the accounts for the £5M investment committed at the year end.

**13** Appendix 2 contains the letter of representation we seek from you.

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## Accounting policies and financial reporting

- 14 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

## Errors in the financial statements

- 15 We identified errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 16 Management has agreed to amend the group accounts to reflect updated figures provided by the actuary for the Executive's pension deficit and reserve. This arose due to the actuary underestimating the rate of return on assets between January and March 2008. The amendment reduces both the pension deficit and reserve from £58.2M to £54.8M. The amendment does not affect the financial position of the Authority.
- 17 Management has not amended the accounts to reflect a £5M investment committed at the year end. The SORP states that financial assets and liabilities should be recognised on the balance sheet when the holder becomes committed to the transaction (trade date) rather than when the transaction is settled. The PTA became committed to a £5M investment on 28 March 2008 which was settled on 1 April 2008 and this is not reflected in the balance sheet.
- 18 Management has also agreed to adjust the financial statements for a number of non-material errors identified during the audit and to expand the current content of its Annual Governance Statement.

## The audit report

- 19 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

## Material weaknesses in internal control

- 20 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

## Other matters

22 We have identified the following matters that we require you to consider.

**Table 2 Other matters**

Issue or risk	Finding
Pre-paid ticket income (and expenditure) - relevant to group accounts only	The Executive's control processes do not provide clear assurance that pre-paid ticket income collected by third parties is complete. We have carried out additional audit testing to establish that the accounts are materially correct. However, the Executive should review its current controls for the completeness of this income and Internal Audit should extend the current scope of their pre-paid ticket systems audit. We have included a recommendation in the Executive's Annual Governance Report. This issue is included here for completeness as is relevant to the group accounts.
The Authority does not currently have a Code of Corporate Governance.	The 'Delivering Good governance in Local Government: Framework' defines the principles that should underpin good governance including developing and maintaining an up to date code of corporate governance (CoCG). It is good practice to have such a code rather than mandatory. Many of the features of a CoCG are already in place. The Authority has referred to this in the revised Annual Governance Statement and is currently exploring ways to address this.

Fair Value disclosure	Note 19.1 to the Authority's accounts includes a Fair Value disclosure for long-term loans calculated using the methodology and market rates provided by Sector Treasury Services. Sector has calculated the fair value of loans on the basis of replacement loan terms rather than premature redemption terms. There is currently a difference in opinion between Sector and the Audit Commission as to the appropriate methodology to use which will be resolved for the 2008/09 accounts. We have not requested a change in the Authority's disclosure this year pending resolution of this issue for 2008/09.
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<b>Recommendations</b>	
<i>R2 The Authority should ensure that financial assets and liabilities committed at the year end are included in the balance sheet as appropriate as per the SORP.</i>	<i>R3 The Authority should collate its current governance arrangements and policies to produce a code of corporate governance in line with best practice.</i>

## Value for money

- 23 We are required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 24 We have assessed the arrangements of the Authority as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.
- 25 There are some minor matters arising which we have brought to the attention of management to improve their arrangements further.

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## Formal audit powers

26 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure; or
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority

27 We have not and do not propose to exercise these powers.

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## Independence

- 28 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 29 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 30 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

### Relationships with the Authority

- 31 We have identified no relationships that might affect objectivity and independence.

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## Audit fees

- 32 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

**Table 3 Audit fees**

	Plan 2007/08 (£)	Actual 2007/08 (£)
Financial statements and Annual Governance Statement	31,241	31,241
Value for Money	8,938	8,938
National Fraud Initiative	260	260
<b>Total Audit Fees</b>	<b>40,439</b>	<b>40,439</b>
Grants	1,743	Ongoing

- 33 The analysis above shows that we contained our audit fee within the totals you have already agreed.

## Our arrangements to ensure independence and objectivity

- 34 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 4 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>do not hold a financial interest in any of our audit clients;</li> <li>may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be</p>

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Area	Arrangements
	<p>provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

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## Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 The Authority should ensure that it has access to the SORP guidance notes when drafting the financial statements to ensure that all changes in accounting treatment are addressed.	2	Chief Financial Officer	Yes	The Authority will continue to ensure it has access to the appropriate accounting guidance in preparing its accounts.	
9	R2 The Authority should ensure that financial assets and liabilities committed at the year end are included in the balance sheet as appropriate as per the SORP.	2	Chief Financial Officer	Yes	The Authority will continue to apply the SORP to its accounts unless there is a clear and agreed reason whereby an alternative accounting presentation is deemed more appropriate. The Authority recognises that strict interpretation of the SORP would require showing an investment of £5m as though it had taken place at the year end. As this transaction did not take place until after 31 March it believes that the balance sheet as currently presented shows a truer and fairer view of the Authority's cash and investment position as at 31 March.	
7	R3 The Authority should collate its current governance arrangements and policies to produce a code of corporate governance in line with best practice.	2	Chief Financial Officer	Yes	In line with best practice the Authority is seeking to implement a formal code of corporate governance in the coming year.	

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# Appendix 2 – Draft letter of representation

24 September 2008

Mr P Lundy  
District Auditor  
Audit Commission  
Kernel House  
Killingbeck Drive  
LEEDS  
LS14 6UR

Dear Mr Lundy

## **West Yorkshire Passenger Transport Authority – Audit for the year ended 31 March 2008**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other Members and officers of West Yorkshire Passenger Transport Authority, the following representations given to you in connection with your audit of the Passenger Transport Authority's financial statements for the year ended 31 March 2008.

### **Compliance with the statutory authorities**

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Passenger Transport Authority and for making accurate representations to you.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Passenger Transport Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Passenger Transport Authority meetings, have been made available to you.

### **Going concern**

We are satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures relating to going concern.

## **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

## **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice likely to have a significant effect on the finances or operations of the Passenger Transport Authority.

The Passenger Transport Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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## **Fair values**

We confirm the reasonableness of the significant assumptions within the financial statements. For all assumptions, we confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

## **Compensating arrangements**

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

## **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements:
- no financial guarantees have been given to third parties.

## **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements.

## Post balance sheet events

Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Passenger Transport Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## Specific representations

The Executive has systems and procedures in place to monitor and record income from prepaid ticket sales by third parties. It will consider whether the scope of work carried out by the Internal Audit section should be extended in this regard. The Authority is satisfied that the income shown in the accounts is materially correct.

The Authority recognises that strict interpretation of the SORP would require showing an investment of £5m as though it had taken place at the year end. As this transaction did not take place until after 31 March it believes that the balance sheet as currently presented shows a more true and fair view of the Authority's cash and investment position as at 31 March.

Signed on behalf of West Yorkshire Passenger Transport Authority.

We confirm that this letter has been discussed and agreed by the Authority on 24 September 2008.

Councillor C Greaves  
Chairman

Ms A Hirst  
Chief Financial Officer

24 September 2008

## **Appendix 3 – The audit report**

### **Independent auditor's report to the Members of West Yorkshire Passenger Transport Authority**

#### **Opinion on the financial statements**

I have audited the Authority and Group accounting statements and related notes of West Yorkshire Passenger Transport Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of West Yorkshire Passenger Transport Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Chief Financial Officer and auditor**

The Chief Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and

## Appendix 3 – The audit report

- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### **Opinion**

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In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Paul Lundy  
District Auditor  
Audit Commission  
Kernel House  
Killingbeck Drive  
Leeds  
LS14 6UF

September 2008

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# Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

## Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

## Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, West Yorkshire Passenger Transport Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

## Best Value Performance Plan

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I have issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on 13 December 2007. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Lundy  
District Auditor  
Audit Commission  
Kernel House  
Killingbeck Drive  
Leeds  
LS14 6UF

September 2008

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## Appendix 4 – Value for money conclusion

- 35** The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources. 'Adequate' equates to a pass.

<b>Code Criteria</b>	<b>Description</b>	<b>VFM Conclusion</b>
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to Directors.	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to Directors.	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	Adequate
6	The body has put in place arrangements to manage its significant business risks.	Adequate
7	The body has put in place arrangements to manage and improve value for money.	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Adequate

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Appendix 4 – Value for money conclusion

<b>Code Criteria</b>	<b>Description</b>	<b>VFM Conclusion</b>
10	The body has put in place arrangements for managing performance against budgets.	Adequate
11	The body has put in place arrangements for the management of its asset base.	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Adequate

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