

Overview of Governance Arrangements

**West Yorkshire Passenger Transport Authority and
Executive**

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

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Introduction

- 1 The Audit Commission's Code of Audit Practice requires auditors to satisfy themselves that audited bodies have satisfactory arrangements in place to secure economy, efficiency and effectiveness in the use of its resources. In meeting this responsibility, auditors review evidence and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements.
- 2 Auditors' sources of assurance in discharging their responsibilities in relation to audited bodies' arrangements for securing economy, efficiency and effectiveness in the use of resources include:
 - the audited body's whole system of internal control as reported on in its statement on internal control; and
 - any other work that they feel is necessary to discharge their responsibilities.

Background

- 3 Our audit plan for 2005/06 identified Corporate Governance as an area for review at West Yorkshire Passenger Transport Authority & Executive (PTA & PTE). The close relationship between the PTA and the PTE, and the need for the PTE to operate effectively as a 'company' in a public sector environment makes it difficult to demonstrate that overall corporate governance arrangements are being upheld.
- 4 The Audit Commission has developed its understanding of corporate governance and defines it as the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve their objectives.
- 5 Good corporate governance combines the 'hard' factors – robust systems and processes – with the 'softer' characteristics of effective leadership and high standards of behaviour. It incorporates both strong internal characteristics and the ability to scan and work effectively in the external environment. The internal combination of 'hard' and 'soft' characteristics involves:
 - leadership that establishes a vision for organisations, generates clarity about strategy and objectives, roles and responsibilities, and fosters professional relationships;
 - culture based on openness and honesty, in which decisions and behaviours can be challenged and accountability is clear;
 - supporting accountability through systems and processes, such as risk management, financial management, performance management and internal controls. They must be robust and produce reliable information to enable better decisions to be reached about what needs to be done in order to achieve objectives; and

- external focus on the needs of service users and the public, reflecting diverse views in decision making, producing greater ownership among stakeholders and maintaining clarity of purpose.
- 6 Corporate governance arrangements are also given prominence by the requirement for the publication of a statement on internal control as part of the statement of accounts. Also, the increasing use of partnership arrangements to deliver public services, including those relating to transport increases the risks relating to corporate governance.

Scope and objectives

- 7 We have carried out an overview of the PTA's and PTE's overall corporate governance arrangements with a view to carrying out more detailed pieces of work, in the future, in specific areas should the need to do so become apparent. The main objective of this overview is to provide feedback to the PTA and PTE on those areas where there is scope for improvement, and also to recognise areas of good practice.
- 8 Our review has considered the PTA's and PTE's corporate governance arrangements as they relate to:
- strategy, leadership, roles and responsibilities;
 - financial management;
 - performance management;
 - risk management and internal controls;
 - standards of conduct;
 - relationships with stakeholders; and
 - Internal Audit.
- 9 We have agreed to carry out a separate review of risk management, in more depth, as part of our 2006/07 audit plan. With this in mind, this overview will place more emphasis on the internal control element of the fourth bullet point above.

Audit approach

- 10 Our audit approach included:
- reviewing documentation, processes and procedures;
 - interviewing personnel at various levels within the organisation;
 - reference to our review of IA carried out in 2005/06; and
 - completion of an 'overview of governance' checklist.

Main conclusions

- 11 Overall, our overview has found that the PTA & PTE have many of the fundamental elements of sound corporate governance in place. The detailed report makes a number of recommendations for improvement and in many cases this could be achieved by formal codification of existing practice.

Strategy, leadership, roles and responsibilities

- 12 Arrangements relating to strategy and objectives setting are strong. Metro provides a very clear vision for West Yorkshire public transport, which is based on consultation with local councils, and a range of public transport users and non-users. This is articulated in the Local Transport Plan (2).
- 13 There is a clear framework in place for setting strategic objectives, standards and targets and cascading these via 'Metroplan' and the Best Value Performance Plan. Regular monitoring of the progress of these annual plans takes place.
- 14 In general, roles and responsibilities are clearly set out and understood by relevant parties. However, there is no formal protocol setting out officer and member relationships. A protocol for the Monitoring Officer has been agreed by the Standards Committee and there is a nominated Monitoring Officer. However, in practice the Monitoring Officer relies on input and support from other officers from both the PTA and PTE. This support is primarily provided by the Clerk, Deputy Chief Financial Officer and/or the Secretary and Solicitor. A schedule providing details of officers and their assumed responsibilities was produced in Internal Audit's 2004/05 report, the Role of the Monitoring Officer. Whilst there is no evidence to suggest that this is not working in practice, these arrangements have not yet been formally reviewed by the Audit and Governance Committee.
- 15 Informal management of partnerships appears effective: Metro has wide ranging partnerships, locally and nationally, and feedback from Metro's input into such partnerships as the Local Transport Plan has been very positive. The management team are also regularly briefed on Metro's involvement in such partnerships and related risks are reviewed through the Risk Management Group.
- 16 Management of the potential risks of such partnerships, particularly in the case of large projects such as Supertram, would be further enhanced through formal monitoring and reporting of all partnership arrangements.
- 17 There are no documented details of any training provided to, or received by, members of the PTA. Although it is apparent that many senior members have considerable experience of the PTA and the PTE, there is a lack of evidence as to whether members, overall, have relevant expertise/understanding to provide effective scrutiny.

Recommendations
<i>R1 Formal protocol covering officer/member relationships should be produced (PTA/PTE).</i>
<i>R2 The roles and responsibilities of the Monitoring Officer, as they operate in practice should be approved by the Audit and Governance Committee (PTA).</i>
<i>R3 Formal documentation covering the monitoring of partnership arrangements that is already undertaken by Corporate Management Team and Risk Management Team should be completed (PTE).</i>
<i>R4 Gap analysis should be performed to ensure members' training programme is sufficient. The training programme should be formally documented and circulated to members (PTA).</i>

Financial management

- 18** Financial management arrangements appear sound. The Chief Financial Officer for the PTA is the Deputy Chief Executive for Leeds City Council and acts as the PTA's S151 officer. He is also a non-executive director of the PTE. The Assistant Director of Finance is the Responsible Financial Officer for the PTE. Both S151 officer and Responsible Financial Officer fulfil the roles expected of them. There is an appropriate formal scheme of delegation in place.
- 19** Metro has a medium term (three year) financial strategy in place, which links to its key strategic objectives. Overall, spending is maintained within budget and is monitored on a monthly basis by the PTE and PTA.
- 20** PTE material financial systems are subject to regular testing by Internal Audit (IA). As noted in the our Review of Internal Audit report in 2005/06, IA testing of PTA was not comprehensive as, at the time of the audit, IA did not have access to the outsourced treasury management records at Leeds City Council. However, it is anticipated that IA will perform a full audit of all PTA financial systems in 2006/07.

Performance management

- 21** Performance management arrangements are good. Standards and targets are set for each operational service area, with appropriate links to corporate objectives.
- 22** Performance monitoring and scrutiny arrangements are in place. Arrangements to allocate resources to agreed priorities appear appropriate, particularly as they are agreed with all 5 district/ city councils. Performance is monitored monthly by senior officers. The Best value performance plan and annual report are both published on a timely basis and cover all expected areas.

- 23 We note that none of the diversity targets included in the Best Value Performance Plan were met by PTE/A. However, given the relatively small size of Metro, the targets are considered particularly challenging. Also the BVPI results, in relation to the rest of PTEG and local councils, are generally reasonable.
- 24 The PTE has struggled to reach its bus patronage targets (194.6m total journeys against a target of 206m, and 9.2m annual journeys against a target of 9.9m). This reflects a national decline in bus patronage. The PTE recognises that it can only indirectly influence such targets but, as noted under partnerships, plays an important role nationally, in lobbying for national transport strategies which encourage greater use of public transport.
- 25 We intend to review bus usage in more detail in 2006/07, as agreed in our Audit Plan.

Risk management and internal controls

- 26 Risk management arrangements are covered by the Risk Management Group, covering both PTA and PTE. It is anticipated that monitoring of risk management will be further enhanced by regular review by the new PTA Audit and Governance Committee (first meeting was held in September 2006).
- 27 In addition to the new Audit and Governance Committee, the PTE audit committee meets on a monthly basis; it does not have any independent non-executive members. An objective and professional relationship is evident between PTA/E and the external auditors. Implementation of action plans arising from audit reports is appropriately monitored by the PTE Audit Committee (and will also be monitored by the new PTA Audit and Governance Committee).
- 28 There is some overlap in the roles of some officers at the PTA and PTE, for example:
- the Director General of the PTE is also the Clerk for the PTA; and
 - the non-executive directors of the PTE are senior officers of the PTA (namely the Chief Financial Officer and the Deputy Chief Financial Officer).
- 29 Whilst it is accepted that these arrangements may provide opportunities for economies of scale in some areas, to ensure the appropriateness of current governance arrangements, and that proper standards are being achieved in respect of separation of duties and independence, consideration of the roles of the Clerk and Director General and non-executive director role at the Executive should be made.
- 30 Whilst we recognise that there would be a cost associated with the engagement of a suitable qualified non executive board director at the PTE, there would be a significant benefit in improving risk management and its perceived independence. This is particularly the case, given the management structure of the PTE, with centralised decision making by a small board of directors.

- 31 Appropriate arrangements are in place for the annual review of the system of internal control. WYPTE prides itself in having effective staff development and training procedures and it was recently voted one of the top UK employers for Human Resources Management.
- 32 High level systems documentation by IA is good; however there is a need to improve overall documentation of all PTA and PTE systems, in particular those relating to change control. For example, the IT department documents changes to IT systems centrally, but departments are responsible for amending their own procedures to reflect these. Departmental documentation in this respect is not routinely monitored.

Recommendations

R5 The current roles and responsibilities of the Clerk/Director General and non-executive directors at the PTE should be reviewed. To ensure that appropriate standards of governance are being maintained/achieved, consideration should be made to the appointment of an additional, external, non-executive director.

R6 Maintain procedures for updating documented changes to systems.

Standards of conduct

- 33 Standards of conduct for both members and officers are set out in the Code of Conduct and the Metro Employee Handbook respectively. Whistleblowing procedures are in place, together with arrangements to receive and investigate allegations of improper conduct, fraud and corruption. A complaints procedure and gifts and hospitality register have been established.

Relations with stakeholders

- 34 A range of formal and informal joint working arrangements exist. Further comment is at paragraph 12 above.
- 35 Appropriate press, publicity and complaints management arrangements have been established.

Internal Audit

- 36 We have reviewed the PTA and PTE IA function in 2005/06 and assessed it as satisfactory although a number of improvement points were identified. Further details in respect of this can be seen in our Review of Internal Audit report.

The way forward

- 37 Recommendations are summarised in the Action Plan at Appendix 1 which has been agreed with officers and will be followed up in due course"

Appendix 1 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Strategy, leadership, roles and responsibilities						
7	R1 Formal protocol covering officer/member relationships should be produced (PTA/PTE).	3	Clerk to PTA		Clerk will discuss the merits of producing such a protocol with the Chair of the PTA.	March 2007
7	R2 The roles and responsibilities of the Monitoring Officer, as they operate in practice should be approved by the Audit and Governance Committee (PTA).	3	Clerk to PTA		The Clerk will discuss the requirements at the Audit and Governance Committee.	December 2007
7	R3 Formal documentation covering the monitoring of partnership arrangements that is already undertaken by Corporate Management Team and Risk Management Team should be completed (PTE).	3	Directors		The PTE will continue to ensure that details of all formal partnerships are properly maintained.	Ongoing.
Risk management and internal controls						
7	R4 Gap analysis should be performed to ensure members' training programme is sufficient. The training programme should be formally documented and circulated to members (PTA).	3	Clerk to PTA		The current training provision which includes induction and both internal and external seminars to be formalised and presented to a future meeting of a PTA Group along with the PTE Training and Development plan. Chairs of Working Groups will also be encouraged to highlight any potential training requirements should they become aware of any.	March 2007

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Risk management and internal controls continued						
9	R5 The current roles and responsibilities of the Clerk/Director General and non-executive directors at the PTE should be reviewed. To ensure that appropriate standards of governance are being maintained/achieved, consideration should be made to the appointment of an additional, external, non-executive director.	3	Clerk to PTA	Yes	A report will be prepared for Members to review the roles and responsibilities of the Clerk, CFO, DCFO and non-executive Directors in relation to the Executive.	March 2007
9	R6 Maintain procedures for updating documented changes to systems.	3			There is a clear responsibility for all managers to ensure systems documentation is up to date. This is reviewed at risk management meetings and there is a formal requirement to declare annually that all procedures are up to date. No further action is therefore considered necessary.	