

# WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

## AUDIT AND GOVERNANCE COMMITTEE

DATE: 15 SEPTEMBER 2006

AGENDA ITEM NO: **6(a)**

**SUBJECT: STATEMENT ON INTERNAL CONTROL**

### Report of the Clerk and Chief Financial Officer

#### 1. **MATTER FOR CONSIDERATION**

- 1.1. To present members with the background to the Statement on Internal Control, which is contained within the published accounts, and to obtain their endorsement for the actions which have been taken to ensure adequate governance arrangements are in place.

#### 2. **INFORMATION**

- 2.1. Over the last few years governance arrangements have featured increasingly in the accounts of the Authority. From 2002/03 national regulations required a 'Statement on Internal Financial Control' to be produced. This was followed in 2003/04 by a 'Statement on Internal Control' which was intended to cover the wider management systems of the Authority rather than simply 'Financial' systems. This was then significantly expanded in 2004/05 to provide the current document.
- 2.2. The 'Statement on Internal Control' included in the 2005/06 accounts is attached as Appendix A. That statement falls into 5 sections with Sections 1 and 2 setting out the background to the statement.
- 2.3. The various elements of the control environment are set out in section 3 of the SIC and it is how these are then dealt with that forms the crux of this report. The following summarises the way in which the SIC is seen to be operating.

#### **Corporate policies set and monitored by the Authority (3a and b)**

- 2.4. Whilst it is not the purpose of this committee to actually determine the policies and objectives it is crucial that they are seen to be reviewed and monitored properly. Members are asked to confirm that they consider that the following actions undertaken by the Authority are satisfactory:

- 2.4.1. The management of the Authority was reviewed in April 2005 when members gave consideration to the overall committee

structure. At that time members considered the structure comprising a series of working groups gave the most efficient use of members time and allowed for the most effective conduct of their business. The precise structure of working groups being determined each year at the annual meeting.

2.4.2. In order to ensure a continuous review of the policies and their implementation each of the working groups receive regular reports on all current activities and can and do call for reports on subjects they consider relevant.

2.4.3. Regular performance monitoring takes place in a wide variety of forums as required by members. For example bus and rail performance monitoring, Best Value Performance indicators in the Best Value Plan and the performance of the finances in the budget and accounts reports.

2.4.4. Communications are seen as key to the Authority's business and operate on a wide range of levels.

2.4.4.1. Internally there is a strong management structure within Metro to create briefing meetings with staff, provide an Intranet facility and to have staff appraisals. These ensure both staff and management are aware of the current situation.

2.4.4.2. Members are kept up to date with changes with the weekly bulletin and consultations in various forms are a regular feature by the Executive.

2.4.4.3. External publications to inform a variety of stakeholders and others including the BVPP, the LTP, the final accounts, Council Tax leaflets and the main web site.

### **Compliance with procedures, laws and regulations (3 c and e)**

2.5. This aspect of control is ensured through the annual approval by Members of the Financial regulations and Standing Orders, the annual issuing of financial procedures and instructions to staff, review of all agendas and reports by legal and financial officers and the monitoring of the budget and spending by the Clerk and the Chief financial Officer. A recent comment in the external audit report suggested that budget monitoring should be formally delegated to the DCFO. However, such a formal delegation is not considered to be required as it is automatically carried out.

### **Risk Management (3 d)**

2.6. The assessment of risk and its subsequent management for both the Authority and Executive has been done through the Executive's internal Risk Management Group. That group receives bi-monthly reports on

all perceived risks to both the Executive and Authority since many of the risks apply equally to both organisations and must be dealt with by staff from both of them. For example the risk arising on the Concessionary fares scheme and the consequent reimbursements stemming from the implementation of the government's free bus fare policy for senior citizens not only impacts on the Executive's relationship with the operators and the budget but also affects the credibility and financial relationship of the Authority with the Districts through the Levy.

- 2.7. It is clearly essential that the Authority reviews the impact of all risks on its operations and Members should be aware that it has done so on a regular basis for the last several years, and continues to do so. The latest schedule of Authority risks, as presented to the Risk Management group, is attached as Appendix B. The operational aspects are then formally reviewed on a quarterly basis by the Executive's Audit Committee and by the Authority's Chief Financial Officer.
- 2.8. To avoid too much duplication of the process it is suggested that the current arrangements are maintained with the Risk schedule being brought to the Audit and Governance Committee on a quarterly basis as part of the report on the SIC.

### **External reviews**

- 2.9. These fall into 3 main groups. Internal audit reports, Audit Commission reports and reports from 'Other' organisations.
- 2.10. Internal audit reports have not previously been formally presented to the Authority. In future it is proposed that there will be an audit plan report at the start of the financial year and an annual report after the year end, except for special instances where additional reports may be required. The annual report for 2005/06 is attached as Appendix D and Members are asked to note its contents.
- 2.11. Audit Commission reports in the past have been taken to the Authority to cover the accounts, the audit certificate and the annual audit letter in which the auditor can include any item he feels should be brought to Members attention. In future the audit plan plus all subsequent reports will be presented to Members. The report for 2005/06 is on the agenda and attached to the 2005/06 accounts.
- 2.12. So far as the 'Other' organisations are concerned the reports are wide ranging and cover matters such as accreditations (eg Chartermark, IIP, and so on), Regional Office reviews of the LTP and the Best Value consultants report on Accessibility. All of these are reported through management to the Authority in a variety of ways. They are then taken on board as part of the management arrangements to improve the operations of Metro. It is not intended that they should also be brought to this committee.

#### **Effectiveness and internal controls (Paragraph 4)**

- 2.13. These have been dealt with against the control environment set out above. The content of the 'review of effectiveness' in the SIC is set out slightly differently as it is for public consumption.

#### **Future actions (paragraph 5)**

- 2.14. The review of the financial irregularity does not form part of this report as it has been dealt with separately by the Appointed Members.
- 2.15. The corporate governance arrangements are now in place with the appointment and implementation of this committee. Members will as a matter of course review its constitution and remit during the next annual meeting in June 2007.
- 2.16. A revised joint code of conduct for all staff of the Authority and the Executive was approved in March 2006 by the Standards and Staffing Working Groups.
- 2.17. A paper based informal internal corporate performance assessment was carried for Metro by the Audit Commission during 2006. In general it has to be appreciated that the current CPAs are not intended for authorities such as PTAs therefore the review had to be slightly modified. However, it was very positive and gave a level 3 to the joint organisation although it identified some areas for attention. These problems all centred round the lack of an Audit committee, separate risk reporting and so on. These matters should all have been addressed by the new arrangements being implemented. A copy of the assessment as it relates to Internal controls is attached as Appendix C.
- 2.18. The formal agreement for services provided by Leeds City Council is virtually agreed and it is expected to be signed shortly. It provides for the City Council to undertake all borrowing and investment work for the Authority, to operate its bank account and to subsequently provide certification of the statements of the transactions carried out and confirmation by the Council's Internal auditor that the systems were audited and were operating satisfactorily. The bank account and transactions therein are being dealt with in the Authority and Leeds no longer have any input to the accounting systems of the Authority.
- 2.19. The reference to audit and risk management arrangements are those already covered in reports to this committee. In particular it refers to the future arrangements for reporting to this committee of all risk and audit matters.

#### **Summary**

- 2.20. The SIC (Appendix A) appears in the annual accounts and must be signed by the Chair. This report details the various aspects of the SIC, sets out the actions which have been taken and which will be taken in

the future to ensure that the governance arrangements which are in place are adequate and satisfactory.

2.21. Members are therefore being asked to approve the SIC and to raise any matters of concern that they may have.

**3. FINANCIAL AND LEGAL IMPLICATIONS**

3.1. None directly arising out of this report.

**4. STAFFING IMPLICATIONS**

4.1. None directly arising out of this report.

**5. EQUAL OPPORTUNITY IMPLICATIONS**

5.1. None directly arising out of this report.

**6. RECOMMENDATIONS**

6.1. To approve the signing of the SIC by the Chair of the Authority.

Clerk to the Authority  
West Yorkshire Passenger Transport Authority

Lead Officer :	A Darbyshire
Date :	August 2006
File:	governance/SIC report Sept 06.doc