

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

Report by the Internal Audit Manager

SUBJECT: INTERNAL AUDIT – ANNUAL REPORT

1. PURPOSE OF REPORT

To consider the annual report of the Internal Audit Manager.

2. INFORMATION

2.1 The Annual Reporting Process

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. On behalf of the Clerk to the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during the course of the year and seeks to:

- provide an opinion on the adequacy of the control environment
- comment on the nature and extent of significant risk
- report the incidence of significant control failings or weaknesses

2.2 Requirement for Internal Audit

There is a requirement under The Local Government Act and The Accounts and Audit Regulations for a continuous and effective internal audit of all the systems of internal control. This role is complemented by initiatives aimed at promoting effective corporate governance, such as the Audit Commission's emphasis on risk management in their Code of Audit Practice and the joint CIPFA/SOLACE framework of corporate governance.

2.3 How Internal Control is Reviewed

Internal audit continues to embrace the risk assessment approach to audit. During the course of the year the risk profile of the authority has been continually updated and used to form the basis of internal audit's operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. Factors used in the risk assessment include financial materiality, legislative requirements, audit's previous experience, and the potential for fraud. This risk based approach to audit planning results in a comprehensive range of audits that are

undertaken during the course of the year to support the overall opinion on the control environment.

This approach was supported by enhancements made to the risk management framework. Key elements have included the identification and creation of risk registers at operational level and refining the format and reporting arrangements of strategic risks.

2.4 Opinion 2005/2006

There was a significant discrepancy concerning the operation of the Authority's bank account discovered during the year. This matter has been previously reported to members.

New procedures subsequently introduced in 2005 for the Authority were found to be operating adequately.

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. There is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

2.5 Statement on Internal Control (SIC)

The Accounts and Audit Regulations 2003 that came into force on 1st April 2003 established requirements related to systems of internal control and the review and reporting of those systems. Accordingly, the Authority needs to have in place a process for establishing, maintaining and reviewing the system of internal control and risk management. Regulation 4 of the Accounts and Audit Regulations requires that;

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk"

Further amendments to the regulations take effect from 31 March 2006. Changes in relation to the provision of statements on internal control are as follows;

"The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with the Statement of Accounts

The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control.

The findings of the review shall be considered by a committee of the relevant body, or otherwise by the members of the relevant body meeting as a whole, which shall approve a statement on internal control, prepared in accordance with proper [internal control] practices.

For the full SIC 2006/7 Internal Audit will provide an opinion for the SIC based upon the risk based plan coverage during the year.

3. SIGNIFICANT ISSUES ARISING 2005/2006

The following section provides a summary of the more significant issues that have been identified and reported during the year. This is by exception only.

3.1 PTA – Alleged Fraud

The identification of an alleged fraud during 2005/06 brought into question the integrity of the internal financial control procedures operated by the Authority. The alleged fraud was carried out, over a number of years, by an officer of Leeds City Council (LCC), who was responsible for the delivery of finance functions for the Authority.

Internal Audit at both the Authority and LCC carried out detailed investigations to identify the extent of the alleged fraud and how it occurred. It was established that the Authority did have a range of financial control processes in place; however they were not operating to full effect.

New procedures were subsequently introduced. Internal Audit has carried out a review of these procedures which, overall, were found to be adequate. However, it is noted that a formal agreement with Leeds City Council for the provision of financial services to the Authority has been produced and is being considered by the Council.

3.2 SUMMARY OF WHISTLEBLOWING CASES

Internal Audit continues to act as the primary contact point for Metro's Whistleblowing Policy. During the period no referrals were made to Internal Audit.

4. AUDIT PERFORMANCE

4.1 Ensuring Quality

Internal Audit work closely with the external auditors, The Audit Commission. They rely heavily on the work that Internal Audit perform on key financial systems to gain assurance that the systems are operating as intended. Such assurances contribute to

them being able to “sign off” the Accounts and contribute to their ‘conclusions’ on the financial aspects of corporate governance. The Audit Commission conducted a review of the Internal Audit function provided within Metro in 2004 and although a number of minor recommendations were made, overall the service was rated as follows:

Objectives and scope	Good
Independence	Good
Staffing and training	Good
Relationships	Good
Due care	Good
Planning, Controlling and recording	Adequate
Evaluation	Adequate
Evidence	Good
Reporting	Good

At the time of writing this report the Audit Commission are performing a further review of the internal audit function. The outcomes from this review will be discussed in the next Annual Report.

4.2 Client Feedback

As part of Internal Audit’s commitment to ensuring the highest professional standards and to ensure that Internal Audit are continually improving the quality of work produced, a customer satisfaction questionnaire is issued. Over 100 employees completed the questionnaire concerning their experience and perception of the Internal Audit service provided within Metro. The results of this questionnaire further support responses received from audit client feedback returns. Overall the customer satisfaction score increased from 3.72 (2005) to 3.96 (2006), an increase of 6.5%.

As a result of comments made, internal audit have identified improvements to the delivery of service. These include enhancements to the provision of information at the commencement of audit reviews in respect of outlining the objectives, the requirement for audit and an estimate of the audit completion date. These improvements will be introduced with the commencement of the 2006/07 audit plan.

5. AUDIT PLAN 2005/2006

A review of all fundamental business systems which meet the Audit Commission/Internal Audit joint protocol requirements have been completed. The internal audit plan covers both the Authority and Executive procedures. Some slippage in the plan has occurred primarily due to fraud and corruption investigation work over and above the contingency originally allowed in the plan.

A specific review of the Authority’s financial procedures was produced during the year. In addition reviews were carried out on systems utilised by the Authority but operated by the Executive. These include;

Main Accounting Systems
 Creditors Payments Systems
 Payroll & Personnel
 Capital Projects
 VAT
 Gifts & Hospitality
 Disclosure of Interests
 Petty cash

6. Performance Indicators

A range of performance indicators has been developed by the PTEG Internal Auditors. It is intended that each PTE will benchmark against each other on these PI's. A meeting is to be arranged to consider this data and also to challenge their relevance, robustness and to identify other potential performance measures. The results of this exercise (2005) are reported in the table below.

	METRO	SPT	NEXUS	GMPT E	MERSE Y	CENTR O	SYPT E
Percentage of audit recommendations accepted by management within 15 days of issue of final audit report	97%	99%	94%	No data	95%	100%	No data
Percentage of audit recommendations implemented within agreed timescales.	71%	68%	75%	No data	84%	57%	No data
Cost of a productive audit day	£200	£185	£260	No data	£245	£337	No data
Percentage of the productive element of the audit plan completed annually	84%	64%	97%	No data	75%	64%	No data

Percentage of auditees satisfied with the internal audit service provided	91%	90%	98%	No data	88%	89%	No data
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7. EQUAL OPPORTUNITY IMPLICATIONS

7.1 None resulting from this report.

8. RECOMMENDATIONS

8.1 That this report be noted.

AUTHOR: Internal Audit Manager