

# **Report on the 2004/05 Financial Statements**

**West Yorkshire Passenger Transport Authority**

**Audit 2004-2005**

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.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

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**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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## Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
  - expected modifications to the audit report;
  - unadjusted non-trifling misstatements;
  - material weaknesses in accounting and internal control systems;
  - qualitative aspects of accounting practice and financial reporting;
  - matters required by other auditing standards to be reported to those charged with governance; and
  - other matters that we wish to draw to your attention.
- 2 We have agreed with the Authority that the communications required under these auditing standards would be with the members of the Passenger Transport Authority. This report sets out for member's consideration the matters arising from the audit of the financial statements for 2004/05.

## Status of the audit

- 3 Our work on the financial statements is now substantially complete. We anticipate being able to issue an unqualified opinion by the end of June 2006 (a draft report is attached at Appendix 1). This is beyond the statutory deadline of 31 October 2005. The delay has been caused due to the discovery of an alleged fraud within the Authority which subsequently required an investigation. Following this, the financial statements for the year ending 31 March 2005 were revised and represented to us for audit.
- 4 However, the audit cannot be formally concluded and an audit certificate issued until the criminal enquiry into the alleged fraud is completed. I am satisfied that the amount which is subject to the investigations will not have a material effect on the statement of accounts.

## Matters to be reported to those charged with governance

- 5 We have the following matters to draw to member's attention.

### Amendments to the accounts

- We are required to consider reporting adjusted misstatements to you where these are material and are relevant to your governance responsibilities. There are no material adjustments to report, however to reflect the alleged fraud that became evident in the 2005/06 financial year, and applicable to 2004/05 and approximately eight years prior to that, some adjustments have been made. The values for all adjustments made have been calculated following a detailed investigation by Internal Audit. These adjustments are explained in the officer's report to the Authority dated 23 June 2006, and we have nothing further to add to this explanation.

### Unadjusted misstatements

- The identification of an alleged fraud during 2005/06 necessitated the reproduction and re-audit of the financial statements. We conclude that there are no material misstatements in the revised accounts as a result of this. However, our audit identified the following non-trifling misstatements in the financial statements that management has decided not to adjust.
  - The amounts relating to fraudulent activities from previous years have not been adjusted in the prior year figures. We are confident that prior year figures are materially correct and agree that there is no substantive reason for the amendment to take place.

### Material weaknesses in accounting and internal control systems

- We are continuing to review the systems of internal control, as they were in 2004/05, and as they operate now. We will report to those charged with governance any matters in this respect at our earliest convenience.

### Matters required by other auditing standards to be reported to those charged with governance

- SAS110 states that it is the responsibility of Directors to take such steps as are reasonably open to them to prevent and detect fraud. This includes:
  - establishing arrangements designed to deter fraudulent or other dishonest conduct and to detect any that occurs; and
  - ensuring that to the best of their knowledge and belief, financial information whether used in the entity or for financial reporting is reliable.

## Next steps

- 6 We are drawing these matters to member's attention so that they can be considered before the financial statements are approved and certified.
- 7 In particular, this provides the Authority with the opportunity to amend the financial statements for the unadjusted misstatements identified above. Should you choose not to amend the financial statements; we are required by SAS 610 to request from you a letter of representation explaining why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements to which it relates, either in the body of the letter or in a document appended to it.

## Appendix 1 – Independent Auditor's Report to West Yorkshire Passenger Transport Authority

- 1 I have audited the statement of accounts on pages **A** to **F** which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages **X** to **Y**.
- 2 This report is made solely to 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

- 3 As described on page **X** the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.
- 4 I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Authority and its income and expenditure for the year.
- 5 I review whether the statement on internal control on page **X** reflects compliance with CIPFAs guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA 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 whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.
- 6 I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

**Basis of audit opinion**

- 7 I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.
- 8 An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 9 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 statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

**Opinion**

- 10 In my opinion the statement of accounts presents fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in United Kingdom 2004, the financial position of West Yorkshire Passenger Transport Authority as at 31 March 2005 and its income and expenditure for the year then ended.

**Certificate**

- 11 I have carried out 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. However, the audit cannot be formally concluded and an audit certificate issued until the criminal investigations into the alleged fraud, as detailed in the explanatory forward to the financial statements, have been formally completed. I am satisfied that the amount which is subject to the investigations will not have a material effect on the statement of accounts.

Signature:.....

Date:.....

Name:.....

Address:.....