

Audit Plan

May 2008



Audit Plan

West Yorkshire Passenger Transport Authority

Audit 2008-2009

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, 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

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.

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Introduction

- 1 This plan sets out the audit work your audit team proposes to undertake in relation to the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 A Comprehensive Area Assessment Lead (CAAL) has been appointed for West Yorkshire. The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies.
- 3 As we have not yet completed our audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.
- 6 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.
- 7 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Fees

- 8 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 9 The total indicative fee for the audit work for 2008/09 is £42,927 which compares to the planned fee of £40,439 for 2007/08.
- 10 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions (these are outlined in Appendix 2).

Table 1 Audit fee

Audit area	Planned fee 2008/09 (£)	Planned fee 2007/08 (£)	Page
Audit			
Financial statements	31,974	30,785	
VFM Conclusion	10,000	9,198	
Whole of government accounts	953	456	
Total audit fee	42,927	40,439	
Certification of claims and returns	1,130	1,743	

- 11 The Audit Commission scale fee for West Yorkshire PTA is £67,940. The fee proposed for 2008/09 is - 37 per cent compared to the scale fee and is just outside the normal level of variation specified by the Commission.
- 12 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements.

Further details of our assumptions are outlined in Appendix 2.

- 13 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 14 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the audited body. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

Specific actions West Yorkshire PTA could take to reduce its audit fees

- 15 The Audit Commission requires its auditors to inform an audited body of specific actions it could take to reduce its audit fees. We have identified the following actions you could take:
 - provide more detailed consolidation working papers for the group accounts (this process has already started);
 - consider aligning your budget monitoring format to the format of the statutory accounts or providing an analysis of variances on the statutory accounts compared to the previous year; and
 - discuss with us the evidence required to support the VFM Conclusion.

Process for agreeing any changes in audit fees

- 16 As set out in paragraph 2, we expect that the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Clerk. Supplements to the plan will be issued to record any revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 17 We are required to issue an audit report giving our:
- opinion on whether the financial statements present fairly the financial position of the audited body as at 31 March 2009; and
 - conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 18 We have not undertaken a detailed risk assessment for our audit of the financial statements as many of the specific risks may become apparent after we have completed our 2007/08 audit. We will undertake a separate risk assessment once the 2007/08 financial statements audit is complete.
- 19 At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- International Financial Reporting Standards in the future (currently proposed for 2010/11);
 - revised international auditing standard regarding Group Accounts; and
 - our triennial review of Internal Audit is required in 2008/09.

Value for money conclusion

- 20 In reaching our conclusion we will review evidence that is relevant to the audited body's performance management and financial management arrangements.
- 21 The key risks highlighted from the planning are summarised in the table below with details of planned work to mitigate the risks. Full details of the risk assessment are outlined in Appendix 3.

Table 2 Key risks identified

Key risks identified	Planned work to address the risk
Governance arrangements.	Audit Commission 'Good Governance Survey'.
PTA engagement in Local Area Agreements (LAA).	Cross-cutting work on how the PTA is engaged in developing and delivering LAA priorities. We propose to use a common LAA priority, for example Children and Young people, as a tracer.
Draft Transport Bill and change in governance arrangements for Transport. Potential increase in Transport powers for PTE/PTA.	We will keep a watching brief and re-assess the risk as the details become clear. Attendance at some 'Change Management Group' meetings.
Bus Patronage	Assess actions taken on the recommendations in our bus usage action plan.
Changes to VFM Conclusion criteria.	Work with the PTA to ensure there is sufficient evidence regarding the new criteria.

Mandated work

- 22 As part of the audit, the mandated work programme comprises 'whole of government accounts'. Appendix 1 highlights the work to be undertaken.

Advice and assistance

- 23 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 24 If you wish the Commission to provide additional services under these powers, please contact Janet Gault (j-gault@audit-commission.gov.uk).

The audit team

- 25 The key members of the audit team for the 2008/09 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Paul Lundy District Auditor	p-lundy@audit-commission.gov.uk 0844 7987145	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Clerk and the Audit and Governance Committee.
Julie Talbot Audit Manager	j-talbot@audit-commission.gov.uk 0844 7986696	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Sarah Lenton Principal Auditor	s-Lenton@audit-commission.gov.uk 0844 7986635	Key contact for detailed work.
Stephen Gregg Comprehensive Area Assessment Lead	s-gregg@audit-commission.gov.uk 0844 7987161	The interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. Responsible for the delivery of elements of the use of resources work.

Quality of service

- 26 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the North East, Yorkshire and the Humber Head of Operations Dave Allsop.
- 27 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*' which is available from the Commission's website or on request.

Planned outputs

- 28 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

Table 4 Planned outputs

Planned output	Indicative date
Interim audit memorandum	May 2009
Output from 'good governance' survey	To be agreed
Output from LAA work	To be agreed
Annual governance report	September 2009
Auditor's report giving an opinion on the financial statements and VFM Conclusion	September 2009
Whole of government accounts report	October 2009
Final accounts memorandum	October/November 2009
Annual audit letter	November 2009

Appendix 1 – Work under the Code of Audit Practice

Financial statements

- 1 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations the financial position of the audited body as at 31 March 2009 and its income and expenditure for the year.
- 3 We are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with our knowledge of the authority.

Value for money conclusion

- 4 The Code requires me to issue a conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires me to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at my conclusion.
- 5 The Audit Commission has now consulted on the new Use of Resources criteria for Local Authorities (following the move to Comprehensive Area Assessments) and proposes that the assessment will be based upon the evidence from three themes:
 - Managing money
 - Managing the business
 - Managing other resources.

The detailed criteria have yet to be announced.

- 6 In meeting this responsibility, we will review evidence that is relevant to the audited body's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, we will normally place reliance on their reported results to inform our work.
- 7 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Certification of grant claims and returns

- 8 We will continue to certify the audited body's claims and returns on the following basis.
- Claims below £100,000 will not be subject to certification.
 - Claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification.
 - Claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Whole of government accounts

- 9 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 10 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is coordinated with the work of other regulators, and that our work helps you to improve.
- 2 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the audited body with reference to:
 - our cumulative knowledge of the audited body;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with audited body's officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements;
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports.
- 4 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators;
or
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 The fee (plus VAT) will be charged in 12 equal instalments from April 2008 to March 2009.

Appendix 3 – Initial risk assessment – value for money conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities (draft VFM Conclusion criteria)
Work included in plan				
Adequacy of current governance arrangements. Issues arising from recent Audit Commission Public interest Report on MerseyTravel.		Yes	We will use Audit Commission's 'Good Governance Tool' - using an on-line governance survey. Workshop to present results as appropriate. We will also compare your arrangements with those at other PTAs.	Managing the business.
How is the PTA engaged in the Local Area Agreement (LAA) process? How do they help to shape and develop LAAs to ensure that transport issues are included - transport has links to many cross-cutting issues in West Yorkshire.	Not clear how LAA fits into MetroPlan process and how PTA contributes to LAA.	Yes	We will undertake a piece of cross-cutting work to assess how the PTA is engaged in developing and delivering LAA priorities. We propose to use a common LAA priority, for example Children and Young people, as a tracer. Detailed specification for the work to be agreed at a later date.	Managing the business. Managing other resources.
Draft Transport Bill and change in governance arrangements for Transport. Potential increase in Transport powers for PTE/PTA and introduction of quality Contracts.	City Region employing consultants (Atkins) to consult on and develop series of options. PTE/PTA are leading on this. PTE already looking at quality contracts.	?	No specific work planned as the final details have yet to be determined. We will keep a watching brief and re-assess the risk as the details become clear. Attendance at some 'Change Management Group' meetings.	Managing money. Managing the business. Managing other resources.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities (draft VFM Conclusion criteria)
The PTA is not currently on target to meet LTP Bus usage targets.	The PTA has produced action plan to address recommendations arising from our 2006/07 report on bus usage.	Yes	We will follow-up the actions taken to address the recommendations made following our 2006/07 bus usage report.	Managing the business.
The Audit Commission is revising the Use of resources criteria (which will link directly to the VFM Conclusion criteria) as part of the move to Comprehensive performance Assessment. There are likely to be new areas which we have not previously assessed.	The PTA is continually striving to improve and will undertake a self-assessment against any new criteria prior to our work.	Yes	We will re-assess and discuss with key officers once the Audit Commission's new criteria has been announced.	Managing money. Managing the business. Managing other resources.
Other risks identified with no specific work currently in plan				
New Generation Transport (NGT) – Supertram replacement. Still in early stages. Not clear what scheme government will accept.	Currently working through the best solution for individual corridors. Attempting to obtain clear guidance from government on what schemes would be acceptable. Project management arrangements.	No	No specific work planned at as in early stage. However, we will keep a watching brief and re-assess the risk as the scheme progresses.	Managing the business.

20 Audit Plan | Appendix 3 – Initial risk assessment – value for money conclusion

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities (draft VFM Conclusion criteria)
Financial standing/position etc. Impact of concessionary fares appeal and change in national scheme from 01/04/08. Subsidised services – increase in operating costs could impact on service delivery.	PTA has updated the Medium Term Financial Strategy (MTFS) and has undertaken a risk assessment on the level of reserves required as part of this process. We are currently reviewing the PTA's MTFS in our 2007/08 audit.	No	No specific work planned as we are already reviewing in 2007/08. However, we will keep a watching brief and re-assess once our work is complete.	Managing money. Managing the business.
What is the PTA's role re service resilience and civil contingencies? No specific risk identified but is a current issue given the recent floods and their impact on public transport.	The PTA has recently updated its business continuity procedures.	No	To review during 2007/08 audit as part of VFM Conclusion. Also to direct PTA to 'tool' on the Audit Commission's website.	Managing the business.

Appendix 4 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 2 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Governance Committee. The auditor reserves the right, however, to communicate directly with the audited body on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 5 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk based audit through regular liaison with key officers.
- 2 The meetings will be organised by the Audit Commission and our proposal for this is as follows.

Table 5 Proposed meetings with officers

Audited body's officers	Audit Commission staff	Timing	Purpose
Clerk	District Auditor Audit Manager	Quarterly: April, August, November, February	General update plus: <ul style="list-style-type: none"> • April - audit plan • August - accounts progress and VFM • November - Annual Audit letter • February - Audit planning
Director of Finance	Audit Manager Team Leader	At least quarterly	Update on audit and opinion issues
Internal Auditor Manager	Audit Manager Team Leader	Quarterly	Update on audit progress and issues
Audit and Governance Committee	District Auditor Audit Manager	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit Plan • Annual governance report • Annual audit letter • Other issues and reports as appropriate

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel and using public transport where appropriate.