

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

DATE: 23 June 2006

AGENDA ITEM NO: 22

SUBJECT: FINAL ACCOUNTS OF THE AUTHORITY FOR 2004/05

Report of the Clerk and Chief Financial Officer

1. MATTER FOR CONSIDERATION

- 1.1. Reconsideration of the Authority's final accounts for 2004/05 as a result of the alleged fraud and the subsequent re-audit of the accounts.

2. INFORMATION

- 2.1. In order for Members to fully consider the position it has been agreed with the Audit Commission that this report will have the following documents attached:
 - 2.1.1. Appendix A -The revised annual accounts as amended to take account of changes arising from the alleged fraud.
 - 2.1.2. Appendix B - The auditors SAS610 report
 - 2.1.3. Appendix C – The auditor's Annual Audit Letter for 2004/05 (AAL)
- 2.2. Members received the draft final accounts for 2004/05 in a report at their meeting on 24 June 2005. The following week the Authority was made aware of an alleged fraud on their bank account. This was followed by an investigation by Authority officers, internal audit from Leeds City Council and the Authority and the Audit Commission. The police fraud squad is currently conducting an ongoing investigation pending prosecution hence any details of the alleged fraud in this report are necessarily restricted.
- 2.3. It is clear that the alleged fraud occurred over a number of years. The part of the alleged fraud which occurred in May 2005 actually relates to the 2005/06 year and not to the 2004/05 accounts. The whole situation related to the alleged fraud and the possibility of recovery of misappropriated funds has been discussed at meetings of the Group Leaders and the Appointed Members. It is currently anticipated that the amounts which are likely to be recovered from a variety of sources will cover the deficiency reflected in the 2004/05 and 2005/06 accounts.

Changes to the 2004/05 Accounts

2.4. The attached accounts have been amended in a number of places from those presented to Members in June 2005. All the main changes are highlighted in the document for ease of reference and the most significant are commented on below:

- 2.4.1. The financial summary has been updated and now includes a comment relating to the alleged fraud in its third paragraph.
- 2.4.2. The Statement on Internal Control, which was new for 2004/05, has been revised. It sets out what is expected of the authority and the general scope of the control environment. There is also an action plan to further develop the Authority's internal control environment which covers corporate governance and internal control issues. It includes a proposal that the Authority consider adopting a new working group to cover general governance and control issues. This proposal is dealt with elsewhere on the agenda.
- 2.4.3. The financial amendments to the accounts in essence show an increase of £247k in the charge against the reserves. This has arisen because part of the alleged fraud relied on showing the repayment of a loan in the accounts which had not actually happened. Members should be aware that the alleged fraud is both larger and more complicated than this but the cumulative net effect on the accounts to the end of 2004/05 is virtually covered by this amount.
- 2.4.4. The more detailed alterations relate to increases in expenditure, including a bad debt provision of £306k and additional interest receivable of £59k, resulting in the net additional £247k charged against reserves. There are of course a number of amendments to the notes to reflect these adjustments.
- 2.4.5. As stated above steps have been taken to recover both this and any other sums removed. However, so long as there is any risk of non-recovery it is always prudent to make provision for bad debts. In this instance a full provision has been made which means the debt itself does not appear directly on the face of the Authority's balance sheet.
- 2.4.6. Following on from the changes to the Revenue Account the Balance Sheet, Cash Flow statements and other figures have been amended. Whilst the changes are again highlighted on the attached the only net effect is the reduction in reserves. In total the reserves have reduced by £434k as opposed to the predicted reduction of £862k shown in the budget report at February 2005 which was the basis on which the accounts were closed. This change has been fully taken into account in the recent 3 year

financial strategy and the current budget approved in February 2006.

- 2.4.7. There have been a number of other minor changes, mainly cosmetic, to figures and wording to the accounts as agreed with the auditors.

The SAS610 (Appendix B)

- 2.5. This letter is a standard requirement by all auditors and must be considered by Members before they accept, or reject, a set of accounts. In this instance it should be read in conjunction with the annual audit letter.
 - 2.5.1. The only separate point raised in the document is a statement that the PTA has not amended the previous year's figures. This is true but the lack of change has been done in agreement with the auditors since the adjustments concerned would be minimal and are in any event taken account of in the balance sheet at the end of 2004/05.
 - 2.5.2. Despite the highlighting of this matter in paragraphs 5 and 6 of the SAS610 the Authority has been assured that the auditors consider it unnecessary and it is therefore recommended that no further action be taken on these figures.

The Annual Audit Letter (Appendix C)

- 2.6. An annual audit letter is submitted to Members each year after the completion of the audit of the Authority's accounts. This year the auditor has taken the opportunity to submit his SAS610 and AAL to a single meeting of the Authority. This is helpful as it enables Members to consider the whole position at one time rather than over a series of separate meetings.
 - 2.6.1. As usual the letter contains a number of general matters. These are dealt with in the following paragraphs. However, the comments that relate to the alleged fraud and systems of control are dealt with as part of the separate section below dealing with consequential changes to procedures.
 - 2.6.2. The comments relating to the 'Whole of Government Accounts', the BVPP and the review of the 'Capital Expenditure and operation of the Prudential Code' are all positive and contain no requirements for action which are not already in place.
 - 2.6.3. The requirement to produce a set of consolidated accounts incorporating those of the Executive has been done and is reflected in the 2005/06 Accounts report also on the agenda.
 - 2.6.4. The general comments on the financial standing of the Authority are again positive but have largely been superseded by the

Authority's more recent consideration of the 3 year financial strategy culminating in the revised budget presented to the Authority meeting in February 2006.

The Audit Opinion and Certificate

2.6.5. The draft is attached in the Auditors SAS610 (Appendix B) and, for 2004/05, will be different from usual. Normally once the accounts have been audited and agreed an opinion and certificate is issued. This year the auditor will issue an opinion by the end of June, as set out in Appendix1 to the SAS610, but no certificate since this will have to wait until after the court case in respect of the alleged fraud has been completed. This is the standard procedure in such cases and the final result will be reported to Members. It may therefore be some considerable time before the formal certificate can be issued.

Consequential changes to procedures as a result of the fraud

2.6.6. As stated in the forward to the accounts the alleged fraud occurred when a member of staff of Leeds City Council, undertaking investment and banking management on behalf of the Authority, allegedly removed funds from the Authority's bank account. As a result immediate action was taken to reduce the risk of any re-occurrence. Actions include:

2.6.6.1. Leeds City Council have taken action in relation to their employee who has been dismissed.

2.6.6.2. The Authority has reviewed all its internal control systems covering the Bank account, all approvals for expenditure and income and accounting arrangements.

2.6.6.3. A revised service agreement to cover borrowing and investments and operation of the bank account has been drafted and is with Leeds City Council for consideration.

2.6.6.4. It is proposed to create a new members working group, as shown elsewhere on the agenda, as a further mechanism to maintain a continuous review of the Authority's policy, managerial and financial arrangements. This working group would be expected to receive reports on such matters as the above as well as audit reports and other relevant matters.

3. FINANCIAL AND EC PROCUREMENT IMPLICATIONS

3.1. These are set out in paragraph 2 above.

4. STAFFING IMPLICATIONS

4.1. None directly arising from this report.

5. **EQUAL OPPORTUNITY IMPLICATIONS**

5.1. None directly arising from this report.

6. **RECOMMENDATIONS**

6.1. That the above report be noted

6.2. that the SAS610 and Annual Audit letter from the Auditor be noted

6.3. that the attached accounts be accepted, and signed as required by the Chair and Officers

6.4. that the opinion from the auditor to be issued by the end of June 2006 be received

Clerk to the Authority
Chief Financial Officer

West Yorkshire Passenger Transport Authority