

Annual Audit Letter

June 2006



Annual Audit Letter

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.

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Key messages

The accounts

- 1 We propose to issue an opinion on the financial statements for 2004/05 of West Yorkshire Passenger Transport Authority (the Authority) by the end of June 2006. An alleged fraud has required the Authority to carry out an investigation and then to revise the financial statements for the year ending 31 March 2005.
- 2 The audit cannot be formally concluded and an audit certificate issued until the criminal enquiry into the alleged fraud is completed.

Other accounts and governance issues

- 3 In June 2005 an alleged fraud was discovered within the Authority. The Authority commissioned an immediate investigation to determine:
 - the scope of the alleged fraud;
 - the reasons for its occurrence; and
 - the steps necessary to prevent a similar occurrence.
- 4 The Authority has issued revised financial procedures in response to the emerging findings of the investigation. We will review the effectiveness of the procedures and controls during the course of our 2005/06 audit and beyond.

Financial position

- 5 We have no concerns over the financial health of the Authority. At the year-end, reserves equated to around 6.1 per cent of annual net expenditure.

Action needed by the Authority

- 6 Particularly since the discovery of the alleged fraud, the Authority should ensure that appropriate checks are routinely made to ensure that the systems in place are operating effectively.
- 7 The Authority needs to consider the actions required to produce its financial statements for 2005/06 within the whole of government accounts deadline of 30 September 2006.
- 8 The Authority should ensure that appropriate, timely reviews of internal financial controls are carried out and that findings and recommendations are reported promptly to management and those charged with governance.

Performance

We have issued an unqualified audit opinion on the BVPP.

Our review of Capital Expenditure and Prudential Code confirms that the Authority's arrangements are sound.

Performance information

- 9 We have issued a report on the BVPP. Our review concluded that the BVPP complies with statutory requirements and is a comprehensive and well written document.
- 10 In undertaking our review we examined the quality assurance systems used to assist in the compilation and reporting of the statutory Performance Indicators (PIs) and the locally agreed Passenger Transport Executive Group (PTEG) PIs. We have made a number of recommendations to Executive officers, and actions have been agreed to:
 - ensure that previous years comparative PI data presented has been agreed at the previous year's audit; and
 - provide officers responsible for the compilation of PIs with training on quality assurance and audit techniques.

Other performance work

Review of Capital Expenditure and Prudential Code Arrangements

- 11 The review examined the Authority's arrangements for the funding of the Executive's capital expenditure. We confirm that arrangements are being managed appropriately and the requirements of the prudential code are being met.

Accounts and governance

We propose to issue an opinion on the Authority's financial statements for 2004/05 by the end of June 2006.

Audit of 2004/05 accounts

- 12 We propose to issue an opinion on the Authority's financial statements for 2004/05 by the end of June 2006. An alleged fraud has required the Authority to carry out an investigation and then to revise the financial statements for the year ending 31 March 2005. The revised financial statements have been submitted for audit and we are satisfied that these are presented fairly.
- 13 The Authority originally presented its accounts to us on 17 May 2005 and our audit of these accounts commenced on 13 June 2005. On 28 June 2005, we were informed, by Authority officers, that an alleged fraud had been discovered. At this point we postponed undertaking any further audit work pending the outcome of any investigation.
- 14 The Authority provided us with a revised set of accounts on 2 November 2005 and our audit of these accounts commenced on 28 November 2005. The revised accounts had been amended to reflect the findings of the internal investigation of the alleged fraud. The accounts are therefore different from those approved by members of the Authority on 24 June 2005 and required re-approval. Re-approval is taking place on 23 June 2006.
- 15 We cannot formally conclude the audit, and issue an audit certificate, until the criminal enquiry into the alleged fraud is completed.

Report to those with responsibility for governance in the Authority

- 16 We are required by professional standards to report to those charged with governance (in this case to the members of the Passenger Transport Authority) certain matters before we give an opinion on the financial statements.
- 17 We have issued a SAS610 letter to members prior to giving our opinion on the Authority's statement of accounts. This highlighted adjustments made to the original set of accounts, which were approved on 24 June 2005, due to changes relating to the alleged fraud.

Matters arising from the final accounts audit

- 18 The published accounts are an essential means by which the Authority reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. 2005/06 represents the first year where authorities are required to prepare consolidated group accounts. The Authority has a group interest in the Executive and is required to prepare consolidated accounts in 2005/06.

Financial standing

General fund spending and balances

- 19 The Authority's general fund reserves at 31 March 2005 were £5.1 million, a decrease of £0.4 million over the previous year end. The reserves balance equates to almost 6.1 per cent of annual net expenditure.
- 20 During 2004/05, the Authority reduced its revenue grant to the Executive by £5.0 million. This was subsequently rebated back to the districts. The reduction of the levy by £5.0 million in 2004/05 was accompanied by a guarantee of a 4 per cent increase in the levy over the next three years.
- 21 The authority has identified that it will make use of £1.4 million of general fund reserves in its 2005/06 budgets. This will leave available reserves of £3.7 million at 31 March 2006. This is equivalent to around 4.4 per cent of annual net expenditure. The use of these reserves is an integral part of the Authority's medium term financial strategy, which was agreed with the district councils.
- 22 Anticipated capital expenditure in 2005/06 is some £12.5 million , and allows for over-programming of £2.7 million (21.6 per cent). Funding is provided firstly by grants and other resources, leaving the balance to be met from borrowing. The Authority has set prudential indicators and limits as required by the CIPFA Prudential Code to define the extent of its borrowing. The capital programme assumes that there will be no unsupported borrowing outside the Local Transport Plan. The Executive manages its capital expenditure to ensure that funding is maximised.

Systems of internal financial control

- 23 Following the discovery of an alleged fraud during the 2005/06 financial year, the Authority commissioned a detailed investigation of its systems of internal financial control. The fraud was allegedly perpetrated over a number of years by an experienced, professionally qualified senior officer who was carrying out financial duties on behalf of the Authority.

- 24 The Authority has issued revised financial control policies and procedures following completion of the investigation. We are satisfied with this initial response and will review the operation and effectiveness of the revised procedures during our audit of the Authority's 2005/06 accounts.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 25 We have highlighted the actions taken by the authority in response to the discovery of an alleged fraud during 2005/06 in the paragraphs above.

Legality of transactions

- 26 We have not identified any significant weaknesses in the framework established by the Authority for ensuring the legality of its significant financial transactions.

Other work

Grant claims

- 27 There have been no grant claims requiring audit certification in 2004/05.

National Fraud Initiative

- 28 In 2004/05 the Authority and Executive took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000. No matches have been identified at the Authority or Executive as a result of this exercise.

Looking forwards

Future audit and inspection work

- 29 We have an agreed audit plan for 2005/06. We will report our findings and conclusions from our 2005/06 programme in next year's Annual Letter.
- 30 We have sought to ensure, wherever possible, that our work relates to the improvement priorities and risks facing the Authority. We will continue with this approach when planning our programme of work for 2006/07. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 31 The statutory requirements governing our audit work, are contained in:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 32 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the members of the Passenger Transport Authority in April 2005. The key changes include:
 - the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 33 This letter has been discussed and agreed with the Clerk, Chief Financial Officer and Deputy Chief Financial Officer. A copy of the letter will be presented at the Passenger Transport Authority meeting on 23 June 2006.
- 34 The Authority has taken a positive and constructive approach to our audit. I would like to take this opportunity to express my appreciation for the Authority's assistance and co-operation.

Availability of this letter

- 35 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Authority's website.

Ivan McConnell
District Auditor

June 2006

Appendix 1 – Background to this letter

The purpose of this letter

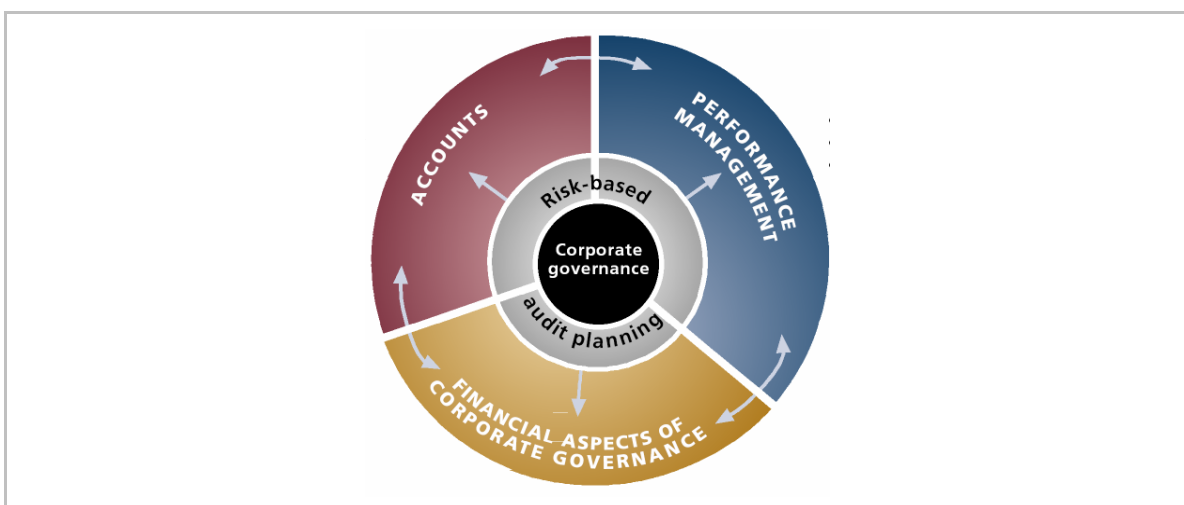
- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Authority's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit of the Authority.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 1

Report title	Date issued
Audit Plan	April 2005
Interim Audit Report	April 2005
Review of Best Value Performance Indicators	November 2005
Auditor's Report on the Best Value Performance Plan	November 2005
Review of Capital Expenditure and Prudential Code Arrangements	December 2005
Report on the 2004/05 financial statements to those charged with governance (SAS 610)	June 2006
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Appendix 3 – Audit fee

Table 2 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	10,862	36,914
Financial aspects of corporate governance	1,837	20,600
Performance	16,901	16,901
Total Code of Audit Practice fee	29,600	74,415
Additional voluntary work (under section 35)	Nil	Nil
Total	29,600	74,415