

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

DATE: 30 June 2008

AGENDA ITEM NO: 7

SUBJECT: INTERNAL AUDIT – ANNUAL REPORT

Report of the Clerk and Internal Audit Manager

1. MATTER FOR CONSIDERATION

- 1.1 To consider the annual report of the Internal Audit Manager and provide details of significant issues arising as a result of work performed in the Annual Audit Plan 2007/08.

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. The Passenger Transport Authority utilises the internal audit section established within the Passenger Transport Executive to provide an internal audit function and contribute to the operation of the overall control framework for the Authority. Due to this arrangement, reporting requirements are that both the Executive's Audit Committee and the Authority's Audit & Governance Committee consider work performed and, as a result, any issues raised by internal audit. On behalf of the Director of Corporate Services, 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 statutory requirement under the Accounts & Audit (Amendment) (England) Regulations 2006 for an internal audit function. Regulation 6 states that a "relevant body shall maintain an

adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to 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.

The CIPFA code of practice for internal audit in local government in the U.K has been adopted as "proper internal audit practice" for the Executive and the Authority.

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 Metro 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.

2.4 Opinion 2007/2008

From the work undertaken during the year, Internal Audit has reached the opinion that overall satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of the Authority's financial affairs. However, a control weakness relating to the reporting of ticket sales was identified.

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.

2.5 Annual Governance Statement (AGS)

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 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 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.

CIPFA/SOLACE have produced a governance framework for the creation of an AGS. This has been adopted and applied as proper practice by the Authority.

The opinion on internal control provided by internal audit based upon the risk based audit plan is one of the key elements to be considered when compiling the AGS.

3. SIGNIFICANT ISSUES ARISING 2007/2008

The following section provides a summary of the more significant issues that have been identified and reported during the year:

3.1 Monitoring of Controls

Further enhancements to the monitoring of the operation of key financial controls have been made with a review and updating of the self-assessment based reports. These are provided at quarter year intervals to the Audit Committee by the Assistant Director Finance (PTE) and the Deputy Chief Financial Officer (PTA).

3.2 Tilling System (Bleep)

The discovery of a theft highlighted a deficiency in the reporting functionality provided from Bleep. Action to correct this weakness was taken and further reviews of transactions introduced at Head Office. Furthermore, an independent audit of these processes was subsequently performed by PriceWaterhouseCoopers. This confirmed that the new arrangements put in place were adequate to detect any reoccurrence of this type of activity.

3.3 Summary of Whistleblowing Cases

The Section continues to act as the primary contact point for Metro's Whistleblowing Policy. Arrangements to improve accessibility to information and mechanisms to make protected disclosures have been made provided on the Authority's web site.

During the period no referrals were made to Internal Audit.

4. AUDIT PERFORMANCE

4.1 Ensuring Quality

We work closely with the external auditors, The Audit Commission. They rely heavily on the work that we do 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 arrangements for securing economy, efficiency and effectiveness in the use of resources.

4.2 Peer Review

The Chief Internal Auditor of Strathclyde Partnership for Transport has conducted a review of the internal audit function provided to the Executive/Authority. The report identified a number of examples good practice that were demonstrated and suggested some areas where minor improvements may be considered in the delivery of internal audit services. As a result, the Internal Audit Manager has produced an action plan to implement these recommendations throughout 2008/09.

4.3 Reporting

Arrangements for reporting on internal audit activities to the Authority continued through the Audit & Governance Committee. The group's primary roles are to deal with the Authority's arrangements relating to its financial accounts, the adequacy of corporate governance arrangements and to consider arrangements relating to internal and external audit.

4.4 Client Feedback

As part of Internal Audit's commitment to ensuring the highest professional standards and to ensure that we are continually improving the quality of work produced, a customer satisfaction questionnaire is issued. The responses have been analysed and indicate good scores in all criteria with the exception of significance of recommendations, which produced an average score. Measures to further improve these ratings in 2008/09 are being considered.

Over 170 employees completed the corporate survey including their experience and perception of the Internal Audit service provided within Metro. The results of this questionnaire support responses received from audit client feedback returns. Overall the customer satisfaction score was 3.74 in the scale from 1 to 5, 5 being an excellent rating. This was an increase on the previous years score and demonstrates continuous improvement and that there is a good perception of internal audit amongst staff within Metro.

5 ADDING VALUE

5.1 Throughout the year the section have provided advice over and above the core objectives of giving internal control assurance and recommending effective systems improvements to management.

This included offering advice to officers on the application of new ordering system, Proactis, and working with the Purchasing section on the e-tendering pilot project.

Internal Audit has also played a lead role in coordinating risk management arrangements within Metro.

6 CONTINUING PROFESSIONAL DEVELOPMENT

6.1 In a changing environment it is important that Internal Auditors are kept abreast of the latest audit methodologies, changes in legislation as well as changes to the public sector arena so they can have the necessary skills and knowledge to fulfil their role. This is provided through Continuing Professional Development. To support this process, each Internal Auditor is assessed against CIPFA's good practice guide to skills and competences, "The Excellent Internal Auditor". This enables strengths and weaknesses to be identified so that training and development needs can be focused on individuals specific requirements.

7 EQUAL OPPORTUNITY IMPLICATIONS

7.1 None resulting from this report.

8 RECOMMENDATIONS

8.1 That this report be noted.