

# Annual Governance Report

West Yorkshire Integrated Transport Authority

Audit 2008/09

September 2009

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## 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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Ladies and Gentlemen

## **2008/09 Annual Governance Report**

I am pleased to present the final version of my report on the results of my audit work for 2008/09.

A draft of the report was discussed and agreed with the Clerk and Chief Financial Officer on 13 July 2009 and has been updated since as issues have been resolved.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Paul Lundy  
District Auditor  
September 2009

# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money.

<b>Financial Statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	4 to 9
Financial statements free from error	Yes	
Adequate internal control environment	Yes	
<b>Use of resources</b>	<b>Results</b>	<b>Page</b>
Arrangements to secure value for money	Yes	10

## Audit opinion

- 1 We expect to issue an unqualified audit opinion on your financial statements.

## Financial statements

- 2 The financial statements submitted for audit were provided in accordance with our timescale. A number of minor amendments were required to the accounts. The amendments do not affect the overall financial position of the Authority.

## Use of resources

- 3 We expect to issue an unqualified conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.

# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**4** I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 9);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion;
- approve the letter of representation on behalf of the Authority before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

# Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

- 5 Subject to satisfactory clearance of minor outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Errors in the financial statements

- 6 A number of minor amendments were required to the disclosures in the accounts following a review of your accounts against the SORP (Statement of Recommended Practice) checklist. These have been reported to management. The amendments do not affect the overall financial position of the Authority.
- 7 There were a number of presentational errors in both the Authority's and the Group cash-flow statements.
- There are equal and opposite errors in the way that capital creditors (£759,000) and grant debtors (£321,000) are reflected in the group cash-flow statement. The Authority has not corrected these in the 2008/09 cash-flow statement, but will revise the basis on which next year's statement is prepared. This does not affect the overall financial position of the Authority.
  - The cash-flow statements and associated notes did not correctly reflect the movement in loans and the split between short and long term loans. The Authority has amended the cash-flow statements for this.
  - The cash-flow statements and associated notes also contained a small number of minor discrepancies. The Authority has amended the cash-flow statements for this.
- 8 Loans outstanding included £1,016,000 as "repayable within 12 months", but this was shown on the balance sheet as a long term borrowing. The Authority has amended the balance sheet to move £1,016,000 from long term borrowing to short term borrowing.

### Recommendation

- R1** Consider amending the accounts for the uncorrected errors in the cash-flow statement. Ensure that cash-flows are prepared on a full cash basis in the future.

### Letter of representation

- 9** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you. We require specific representation from you on:
- the reason for not amending the accounts for the two non-material errors noted in the cash-flow statement

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### Key areas of judgement and audit risk

- 10** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
<p>In the 2008/09 Audit Plan we commented on the medium term financial risk associated with the appeal made by operators on the concessionary fares scheme.</p>	<p>The appeal has now been resolved and there are three year agreements in place with the three main operators covering 2008/09 to 2010/11. As the payments in 2008/09 are about £3m less than the budget, there has been a corresponding “windfall” increase in the Authority’s reserves. This will reverse over the life of the agreement, as payments in the second and third years are higher than originally envisaged. When considering the adequacy of its reserves, the Authority should continue to consider the forecast position at the end of the three year period, and not focus solely on the position at the end of the first and second years.</p>
<p>(Group Accounts issue.) In last year’s Annual Governance Report we recommended that ‘The Executive should review its current controls for the completeness of pre-paid ticket income collected by third parties and Internal Audit should extend the current scope of their pre-paid ticket systems audit’ as the Executive’s control processes did not provide clear assurance that pre-paid ticket income collected by third parties is complete.</p>	<p>Internal Audit’s work programme now includes pre-paid ticket income collected by third parties. In addition, the Executive has been successful in obtaining assurances from third parties concerning their systems and controls. In conjunction with the controls and monitoring undertaken by the Executive this provides sufficient assurance regarding the material accuracy of the pre-paid ticket income. We have recommended further extending Internal Audit’s coverage of third party controls in the Executive’s Annual Governance Report.</p>
<p>Risk of impairment of fixed assets in the current economic climate.</p>	<p>The valuation of Wellington House, as shown in the accounts, is unchanged from last year except for depreciation (£7.75 Million). Members will note that this appears inconsistent with the general movement in the property prices over the last year, but is based on advice the Authority has properly taken from an independent professional valuer using the particular circumstances of the building.</p>

### Accounting practice and financial reporting

11 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

**Table 2**

<b>Issue or risk</b>	<b>Finding</b>
There are a small number of minor areas where the notes and disclosures in the draft accounts could be enhanced. These have been brought to the Chief Financial Officer's attention.	The Chief Financial Officer will take the findings into account when preparing the 2009/10 accounts.
Fair value disclosure of financial instruments (loans)	There is still no consensus in the accounting profession about the detailed application of this reporting requirement. Accordingly we draw your attention to following, but do not propose that there should be any amendment to the accounts. Note 17.1 to the Authority's accounts includes a Fair Value disclosure for long-term loans calculated using the methodology and market rates provided by Sector Treasury Services. Sector has used the "replacement loan" basis in its calculation; the "premature redemption" basis would have produced a materially higher valuation for PWLB loans (£79 Million compared to Sector's £73 Million).

### Recommendation

**R2** The Chief Financial Officer to review notes and disclosures for completeness in 2009/10.

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# Use of resources

**I am required to conclude whether the Authority has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## Value for money conclusion

- 12** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 13** I intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.
- 14** There have been a number of improvements in your arrangements since last year including the three year corporate plan, introducing a code of corporate governance and revising the anti fraud and corruption policy. The Authority is also currently reviewing the costs and quality of tendered services in response to current financial pressures. There are some minor matters arising which we have brought to the attention of management to improve their arrangements further.

# Appendix 1 – Independent auditor’s report to the Members of West Yorkshire Integrated Transport Authority

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## Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of West Yorkshire Integrated Transport Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of West Yorkshire Integrated Transport Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 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

The Chief Financial Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

## Appendix 1 – Independent auditor’s report to the Members of West Yorkshire Integrated Transport Authority

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

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 Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

### Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

## Appendix 1 – Independent auditor’s report to the Members of West Yorkshire Integrated Transport Authority

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, West Yorkshire Integrated Transport Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

#### Certificate

I certify that I have completed 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.

Paul Lundy  
District Auditor

Audit Commission

Kernel House

Killingbeck Drive

Leeds

LS14 6UF

September 2009

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 3**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Analysis of short and loan term loans on the balance sheet.	Long-term borrowing			1016	
	Short-term borrowing				1016

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# Appendix 3 – Unadjusted misstatements in the accounts

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The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

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**Table 4**

<b>Description of error</b>	<b>Accounts effected</b>	<b>Value of error £000s</b>
Cash-flow statement not prepared on full cash basis. The movement on capital creditors has not been reflected.	Cash-flow Statement	759
Cash-flow statement not prepared on full cash basis. The movement on grant debtors has not been reflected.	Cash-flow Statement	321

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# Appendix 4 – Draft letter of representation

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24 September 2009

Mr P Lundy  
District Auditor  
Audit Commission  
Kernel House  
Killingbeck Drive  
LEEDS  
LS14 6UR

Dear Mr Lundy

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## **West Yorkshire Integrated Transport Authority – Audit for the year ended 31 March 2009**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other Members and officers of West Yorkshire Integrated Transport Authority, the following representations given to you in connection with your audit of the Integrated Transport Authority's financial statements for the year ended 31 March 2009. All representations cover the Authority's accounts and the Group accounts.

### **Compliance with the statutory authorities**

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Integrated Transport Authority and for making accurate representations to you.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Integrated Transport Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Integrated Transport Authority meetings, have been made available to you.

## Appendix 4 – Draft letter of representation

### Going concern

We are satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures relating to going concern.

### Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice likely to have a significant effect on the finances or operations of the Integrated Transport Authority.

The Integrated Transport Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair values

We confirm the reasonableness of the significant assumptions within the financial statements. For all assumptions, we confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements.

### Post balance sheet events

Since the date of approval of the financial statements by the Authority, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Integrated Transport Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

## Appendix 4 – Draft letter of representation

### Specific representations

The Authority has not adjusted capital creditors and grant debtors for the cash movements in the year in the Group cashflow statement. The figures have been presented in this way to enable the reader of the accounts to more readily reconcile them to the balance sheet movements in the year. The Authority will however consider the benefits of adjusting such balances in its 2009/10 accounts.

Signed on behalf of West Yorkshire Integrated Transport Authority.

We confirm that this letter has been discussed and agreed by the Authority on 24 September 2009.

Councillor R Downes  
Chairman

24 September 2009

Ms A Hirst  
Chief Financial Officer

# Appendix 5 – Value for money criteria

**Table 4**

The Audit Commission has specified five of the ten VFM Conclusion criteria for Integrated Transport Authorities. We have added a sixth (Does the organisation promote and demonstrate the principles and values of good governance?) in line with our 2008/09 Audit Plan.

<b>KLOE</b>	<b>Met</b>
<b>Managing Finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Strategic asset management	Yes

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2008/09 - Recommendations</b>						
6	R1 Consider amending the accounts for the errors in the cash-flow statement. Ensure that cash-flows are prepared on a full cash basis in the future.	2	Chief Financial Officer	Yes		31 March 2010
9	R2 The Chief Financial Officer to review notes and disclosures for completeness in 2009/10.	2	Chief Financial Officer	Yes		31 March 2010

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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