

Annual Audit and Inspection Letter

November 2007



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West Yorkshire Passenger Transport Authority

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.
- 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

Your relationship manager has prepared this report to summarise the Audit Commission's assessment of the Authority. The report draws on audit, inspection and performance assessment work completed during the year.

In this report, the Commission summarises findings and conclusions from the statutory audit, the appointed auditor has previously reported to you. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, exercise their professional judgement independently of the Commission (and the audited body). Findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; auditors take no responsibility to any member or officer in their individual capacity, or to any third-party.

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Summary

Key messages

- 1 On 28 September 2007 I gave an unqualified opinion on your 2006/07:
 - accounts; and
 - value for money conclusion.
- 2 You currently face some difficult financial decisions in setting your 2008/09 budget and medium term financial strategy.
- 3 There is scope to improve the clarity of information that members receive about progress on meeting corporate objectives and outcomes, to enable effective challenge.
- 4 West Yorkshire is not on target to meet its target of increasing bus patronage by 5 per cent by 2010/11. There are difficulties associated with the current statutory framework.

Recommendations

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- R1 You and the Passenger Transport Executive (PTE) should undertake a thorough risk based approach to setting your level of and policy for reserves.*
- R2 You should receive clear information that demonstrates progress on meeting corporate objectives and outcomes to enable effective challenge.*
- R3 You should monitor the PTE's progress in addressing the recommendations arising from our review of Bus usage in West Yorkshire.*

Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of West Yorkshire Passenger Transport Authority (the Authority). It draws on the findings and conclusions from the audit of the Authority and from any inspections undertaken during the year.
- 6 We have addressed this letter to members as it is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Authority in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Authority is planning to publish it on its website.
- 8 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Authority's accounts;
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Authority's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 There were no inspections by the Audit Commission under section 10 of the Local Government Act 1999 this year.
- 10 We have listed the reports issued to the Authority relating to 2006/07 audit and inspection work at the end of this letter.

Authority's use of resources

Value for money conclusion

- 11 As your appointed auditor I have to consider the arrangements you have put in place to secure economy, efficiency and effectiveness in your use of resources. This is known as the 'value for money conclusion'. I concluded that you did have proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources and issued an unqualified opinion on 28 September 2007.
- 12 My conclusion was based, in part, on the work you and the PTE have done for the last two years voluntarily to assess yourselves against other public sector organisations, using the Audit Commission's 'Comprehensive Performance Assessment' and 'Use of Resources' criteria. The key findings from my work are highlighted below.
- 13 There is evidence of clear improvement in some areas notably:
 - risk management;
 - establishing an Audit and Governance Committee (A&G C); and
 - reporting your budget monitoring to the A&G C quarterly.
- 14 There is scope to improve further in the following areas:
 - receiving information that clearly demonstrates progress on meeting corporate objectives and outcomes to enable members to provide effective challenge;
 - demonstrating that you achieve value for money; and
 - having a level of reserves based on a thorough risk assessment.

Financial standing

- 15 Your financial standing is closely linked to that of the PTE. Some 90 per cent of your expenditure is grant paid to the Executive.
- 16 Your general reserves at 31 March 2007 stood at £4.3 million, slightly less than the budgeted level of £4.7 million. This is primarily due to the increased costs associated with the concessionary fares appeal launched by a bus operator which resulted in an increased 'grant' being paid to the PTE.
- 17 Estimated expenditure for 2007/08 is £159 million including a planned use of £1.3 million reserves. Your latest budget monitoring reports forecast a slight underspend against the budget which will then utilise £1 million of reserves.

- 18 You, along with the PTE, face some tough decisions in setting your 2008/09 budget and medium term financial strategy. This is primarily due to the longer term effect of the concessionary fares appeal and the implementation of the extended concessionary fares system in 2008/09, the final details of which have yet to be finalised by the government.
- 19 Because the level of volatility in your spending, and the cost pressures, could erode all of your reserves it is imperative that you (and the PTE) review your policy on financial reserves, and budget for a level of reserves that will be sufficient to meet the risks identified.

National Fraud Initiative

- 20 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in January 2007.
- 21 You have reviewed all the data matches relevant to the Authority and found no instances of fraud.

Best Value Performance Plan

- 22 We have carried out a review of your 2007/08 Best Value Performance Plan and reported that it meets the required standards. No recommendations were made to the Audit Commission or the Secretary of State.

Specific risk-based work

- 23 We also carried out specific pieces of risk-based work as follows.
- Increasing Bus usage in West Yorkshire.
 - Risk management.

Increasing Bus Usage in West Yorkshire

- 24 During 2006/07 we undertook a large piece of cross-cutting work, 'Increasing Bus Usage in West Yorkshire'. Although our work focused mainly on the role of the PTE in providing leadership to their partners in increasing bus usage, I have included a summary of the findings in this letter to enable you to monitor achievement against the recommendations made.
- 25 Our project 'Increasing Bus Usage across West Yorkshire' was carried out in collaboration with the five metropolitan district councils in West Yorkshire. We focused on the arrangements that the PTE and its partners have made, within the Bus Partnership, to achieve an increase in bus patronage.
- 26 The PTE is providing strong leadership to improve public transport. There are examples of the bus partnership delivering specific projects and initiatives such as bus corridor improvements, improved information and travel planning that increase bus usage. However, the partnership is not always working effectively to increase bus patronage overall. The bus partnership is not fully effective because targets, policies and risks are not shared by all partners. The current statutory framework is unhelpful in that it limits the ability of transport authorities to direct where bus services should be developed. This may change if the proposed Local Transport Bill becomes law. The PTE is already responding to this by developing a business plan in advance of DfT proposals for Quality Contracts and the first Performance Improvement Partnership was signed July 2007 between the PTE, Kirklees Council and First Bus Group to improve partnership working.
- 27 The review found that West Yorkshire is not on track to achieve its target of increasing bus patronage by 5 per cent by 2010/11, and the bus partnership is not always working effectively to improve accessibility. The West Yorkshire transport authorities have delivered a number of significant schemes in recent years, and the focus on improving bus corridors is increasing patronage. However, these have not been sufficient to offset the overall trend of declining bus usage.
- 28 There is a clear structure for managing and reporting information. Performance management of partnerships is improving but is not yet resulting in increased bus patronage. The PTE has introduced a number of new approaches such as streamlining the bus partnership framework, introducing Performance Improvement Partnerships, more regular operator meetings and the use of real time information to understand and address punctuality issues. However, partners are not working together to manage performance.

- 29 The PTE undertakes comprehensive consultation to understand the needs of communities and is involved with Local Strategic partnerships in the five districts. To ensure that it has mechanisms in place to capture the views of a wide range of bus users and non-users the PTE is updating its consultation strategy.
- 30 Recommendations aimed at increasing the effectiveness of the Bus Partnership to achieve increased bus patronage covered improvement in three areas: partnership working; value for money and communications to encourage use of public transport. To assist in achieving the Local Transport Plan target of increasing bus patronage by 5 per cent by 2010/11 you should now monitor the PTE's progress in addressing the recommendations arising from our review.

Risk management

- 31 This year's audit work included a review of your risk management arrangements, as recorded in my 2006/07 Audit Plan. This work supported our work on your value for money conclusion and CPA self-assessment review.
- 32 You have made good progress in implementing a risk management system within the Authority.
 - You now have your own specific strategic risk register, incorporating action and responsibilities.
 - Member responsibility is now more apparent with the consideration of risk included within the Audit and Governance Committee terms of reference.
 - You have risk management champions at member level.

Audit of the accounts

- 33 As your appointed auditor I issued an unqualified opinion on your accounts on 28 September 2007. Before giving my opinion, I presented my 'annual governance report' to the Audit and Governance Committee (as 'those charged with governance') on the issues arising from the 2006/07 audit.
- 34 The accounts presented for audit were available on time and supported by improved working papers. There were two misstatements in the accounts which were amended before I gave my opinion. There was one misstatement which was not amended on which I received management representation as to why the Authority considered it not appropriate to amend.
- 35 I have additionally recommended that you should provide detailed working papers for the consolidation of the PTA's and PTE's accounts into the group accounts.
- 36 I reported in my letter last year that the audits for 2004/05 and 2005/06 could not be formally concluded until the criminal investigation into the alleged fraud had been formally completed. This investigation is now complete and on 28 September 2007 I formally concluded these audits without change and issued my audit certificates.

Whole of government accounts

- 37 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to Communities and Local Government and I am required, as your auditor, to undertake a range of procedures and report on the pack. I reported that your 'consolidation pack' was consistent with your accounts and there were no matters arising.

Closing remarks

- 38 We have discussed and agreed this letter with the Clerk and Deputy Chief Financial Officer. We will present the letter at the Audit and Governance Committee meeting on 14 December 2007 and we will provide copies to all Authority members.
- 39 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Authority during the year.

Table 1 Reports issued

Report	Date of issue
Audit plan	April 2006
Risk management arrangements	May 2007
Annual governance report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Interim audit and final accounts memorandum	December 2007
Bus Patronage	November 2007
CPA (review of self-assessment)	November 2007 (presentation)
BVPP report	December 2007
Annual audit letter	November 2007

- 40 The Authority has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Authority's staff for their support and cooperation during the audit.

Paul Lundy
Relationship Manager and District Auditor

November 2007