

# Annual Audit Letter

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West Yorkshire Integrated Transport Authority

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Audit 2008/09

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November 2009

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# Contents

<b>Key messages</b>	<b>3</b>
<b>Financial statements and annual governance statement</b>	<b>5</b>
<b>Value for money conclusion</b>	<b>6</b>
<b>Closing remarks</b>	<b>9</b>
<b>Appendix 1 – Value for money conclusion</b>	<b>10</b>

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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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# Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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## Audit Opinion

- 1 On 30 September 2009 I issued an unqualified opinion on your 2008/09 accounts.

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## 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.

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## Value for money

- 3 On 30 September 2009 I issued an unqualified opinion on your 2008/09 value for money conclusion.
- 4 The Authority faces some significant financial challenges in the medium term and is taking action to address these through:
  - identifying the potential impact on the medium term reserves position in its annual budget and financial strategy update process; and
  - reviewing the costs and quality of the tendered bus services.

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## Table 1 Audit fees

We reported our fee proposals as part of the audit plan for 2008/09. The table below reports the outturn fee against that plan.

	Actual (£)	Proposed (£)	Variance
Financial statements and annual governance statement	32,927	32,927	NIL
Value for money	10,000	10,000	NIL
<b>Total audit fees</b>	42,927	42,927	NIL
Certification of grant claims	434	1,130	(886)
Total audit fees for 2008/09	43,361	44,057	(886)

## Independence

- 5 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 6** There were no significant issues arising from the audit. 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.

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## Material weaknesses in internal control

- 7** I did not identify any significant weaknesses in your internal control arrangements.

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## Accounting Practice and financial reporting

- 8** I considered the qualitative aspects of your financial reporting and recommended that the notes to the financial statements and disclosures be reviewed for completeness in 2009/10.

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# Value for money conclusion

I assessed whether the Authority 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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## VFM Conclusion

- 9** I assessed 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 1.
- 10** I issued an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 11** In last year's annual audit letter I made two recommendations to improve arrangements further. You have addressed these recommendations by:
- more clearly linking your medium term financial strategy to your key objectives through introducing a three year corporate plan - more work is planned in 2009/10 through the Passenger Transport Executive's review of the business planning process; and
  - The Passenger Transport Executive introducing a schedule of value for money reviews across a number of service areas in 2009/10, some of which are already underway.

## Triennial review of Internal Audit

- 12** We undertook our triennial review of Internal Audit against the standards set by CIPFA. We concluded that Internal Audit is compliant with the majority of the CIPFA internal audit standards and there have been a number of significant improvements since our last triennial review. In addition, we have been able to place reliance on some specific Internal Audit tests in 2008/09 and their systems' documentation.
- 13** Our review also identified a number of areas for further improvement, notably in the standard relating to undertaking audit work. Before our review Internal Audit had already recognised the need to improve the quality of audit working papers. To help achieve this, the Internal Audit manager is currently looking at potential audit software programmes and updating the audit manual.
- 14** We have agreed a detailed report and action plan with management which will be presented to your Audit and Governance Committee and will follow up Internal Audit's progress in addressing our recommendations in the 2009/10 audit.

## Value for money conclusion

### Overall governance arrangements

**15** In line with our audit plan we undertook additional work on your overall governance arrangements. Governance is about ensuring that an organisation is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable way. The summary findings have been included within the VFM Conclusion findings in Appendix 1. A report of the findings has been discussed and agreed with management.

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### Financial position

**16** Along with many public sector organisations, the Authority is facing some significant financial pressures in both the short and medium term. The current key issues are:

- concessionary fares with uncertainty around the future funding for the scheme and the current three year agreement with operators ending in 2010/11; and
- Tendered Services including the impact of recent service cuts on commercial routes and the lack of competition for these services.

**17** The Authority is responding to these challenges through:

- identifying the potential impact on the medium term reserves position in its annual budget and financial strategy process; and
- reviewing the costs and quality of the tendered bus services.

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### Specific risk based work - Transport in West Yorkshire - engagement of the Authority with the Districts and other bodies

**18** Transport is crucial in helping to deliver West Yorkshire's economic, environmental and social aims and is a high priority for local people. As part of our 2008/09 audit we have undertaken a cross-cutting review of transport in West Yorkshire to assess whether the partnership arrangements across the relevant organisation are working effectively. We used children and young people, congestion and quality contracts as tracers for testing partnership working.

**19** We have presented the preliminary findings from our work to the Executive's Directors who are in the process of providing a formal response to our findings, conclusions and recommendations. We are currently exploring options for discussing the key messages with the ITA and the five West Yorkshire Districts.

### The future

**20** In last year's Annual Audit Letter and my 2009/10 Audit Plan I referred to the future changes to transport governance arrangements in West Yorkshire. The consultants engaged to consult with all parties involved have now made a set of recommendations for the future of transport governance in West Yorkshire and the wider City Region. The City Region chief executive's group (which includes a representative from the Authority) has identified a project director to progress the significant workload required to present a governance scheme to the Government. It is envisaged that a formal scheme will be in place by 2012. We will keep up to date with this as it progresses.

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# Closing remarks

- 21** I have discussed and agreed this letter with the Clerk and Chief Financial Officer. I will present this letter at the Audit and Governance Committee on 15 December 2009 and will provide copies to all Members.
- 22** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 2**

We have issued the following reports to the Authority

Report	Date issued
Audit Plan	May 2008
Triennial Review of Internal Audit	June 2009
Annual Governance Report	September 2009
Opinion on Financial Statements	September 2009
Opinion on Value for Money Conclusion	September 2009
Value for Money Conclusion - summary findings	September 2009
Corporate Governance - summary findings	October 2009
Transport review - presentation to the Executive	November 2009
Final Accounts memorandum	November 2009
Annual Audit Letter	November 2009

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- 23** The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority's staff for their support and co-operation during the audit.

Paul Lundy  
District Auditor  
November 2009

# Appendix 1 – Value for money conclusion

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.

## Managing finances

<b>KLOE 1.1: Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?</b>	<b>VFM criterion met?</b> Yes
Key findings and conclusions	
<p>The Authority has a three year medium term financial strategy (MTFS) which is linked to its strategic priorities in the annual Metroplan. This has been improved through the introduction of the three year corporate plan in 2009/10 (there was a 'shadow' plan in 2008/09). The MTFS clearly identifies the key financial pressures facing the Authority and the effect on the level of future reserves and has considered how these can be addressed.</p> <p>There is a lot of consultation with users to assess the impact of the Authority's policies and decisions on their needs.</p> <p>The Authority has a good history of setting a balanced budget and of keeping expenditure within the budget. In 2008/09 there was an underspend against budget due to the timing of the payments to operators in the three year concessionary fares' agreements.</p> <p>The Authority has Treasury Management Policy which follows the CIPFA guidance.</p> <p>Improvements planned for the future include a project in 2009/10 to review the business planning process including strengthening the links further between strategic priorities and the medium term financial strategy - this is a Passenger Transport Executive project but applies to the Authority too.</p> <p>There is a great deal of pressure on current and medium term budgets particularly concessionary fares and tendered services. The Authority should continue to ensure that it monitors the situation closely to enable it to respond accordingly.</p>	

## Appendix 1 – Value for money conclusion

<b>KLOE 1.2: Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?</b>	<b>VFM criterion met?</b> <b>Yes</b>
Key findings and conclusions	
<p>The Authority does have a sound understanding of the costs it incurred and its overall performance. It also sets clear efficiency saving targets. There is a good understanding of the cost pressures the Authority currently faces. All new investments eg capital or revenue projects are subject to an investment appraisal process and approval through by the full Authority.</p> <p>Improvements noted since last year include:</p> <ul style="list-style-type: none"> <li>• The ongoing review of costs and quality of tendered services contracts in response to current cost pressures</li> <li>• Clear evidence that the Authority along with the Passenger Transport Executive considers cost and quality of service provision for example in the rapid response to the bus service cuts in Leeds</li> </ul> <p>The Passenger Transport Executive has already identified that there is scope to improve its understanding of costs further and has implemented a series of VFM reviews in 2009/10.</p> <p>We have noted that there is scope to improve further through producing unit cost information to enable comparisons with other Integrated Transport Authority's and Passenger Transport Executives where applicable.</p>	

<p><b>KLOE 1.3: Is the organisation’s financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?</b></p>	<p><b>VFM criterion met?</b> Yes</p>
<p>Key findings and conclusions</p>	
<p>Revenue and capital budget monitoring information is available instantly to budget holders and is reported monthly to the Authority's Chair and quarterly to the Audit and Governance Committee on a timely basis. Both financial and performance information is available to decision makers although it is not always presented together to enable the overall picture to be readily seen in all cases - there has been a significant amount of financial and performance information available during the current review of Tendered Services. The budget is reported in a different format to the annual accounts.</p> <p>The Authority's accounts were prepared in accordance with the timetable and met the statutory deadlines. They were free from material error and only contained a small number of minor errors. The working papers provided were in line with our requirements and all queries were answered promptly. The Authority approved the accounts by the statutory deadline and engaged in a discussion of the key financial issues affecting the Authority notably concessionary fares and the longer term financial position. The annual accounts are available on the Authority's website for the public to access and summary financial information is available in council tax leaflets and the corporate plan.</p> <p>We have noted the that there is scope to improve arrangements further through:</p> <ul style="list-style-type: none"> <li>• reviewing how financial and performance information is presented to ensure decision makers have all the relevant information available; and</li> <li>• checking whether decision makers are satisfied with the information provided?</li> </ul>	

## Appendix 1 – Value for money conclusion

### Governing the business

<b>KLOE 2.3: Does the organisation promote and demonstrate the principles and values of good governance?</b>	<b>VFM criterion met</b> <b>Yes</b>
<p>This KLoE was not specified for the Authority by the Audit Commission this year; we have included it as it was an area flagged up in our 2008/09 audit planning process. We supplemented the criteria specified by the Audit Commission with some additional audit work using the key themes in the 'good governance' survey.</p> <p>The Authority publishes the required information describing individual roles and responsibilities on its website. The Authority promotes the principles and values of good governance. There is a complaint's procedure and a whistle-blowing policy which are available to all staff and members. There is a Members Code of conduct and we have tested that the register of members' interests is up to date.</p> <p>The Authority has a series of documents which outline its vision for the future including the 20 years transport vision, the Local Transport Plan, various strategies and the annual Metroplan. This has been supplemented in 2009/10 by the introduction of the three year corporate plan. There is a great deal of consultation with transport users and non-users with a number of ways that feedback is sought.</p> <p>The Authority has recently (2009/10) reviewed and revised its staff code of conduct and guidelines to staff following Internal Audit recommendations regarding staff declaration of interests and hospitality. There is also a protocol for officer/member relations. The Authority has also recently introduced a code of corporate governance in line with good practice.</p> <p>The Authority's Audit and Governance Committee provides appropriate challenge and meets the standards set by CIPFA.</p> <p>I have noted the following areas where there is scope for further improvement.</p> <ul style="list-style-type: none"><li>• Members receive initial induction on their role at the ITA and receive general training at their home authorities. Is there scope to provide more ongoing training to help develop their role further?</li><li>• There is scope to clarify the reliance the Audit and Governance Committee is placing on the Executive's Audit Committee specifically around the monitoring of progress against audit recommendations. This could be set out in the respective Terms of Reference and should be facilitated by the planned regular meetings of the respective Chairs.</li></ul>	

KLOE 2.4: Does the organisation manage its risks and maintain a sound system of internal control?	VFM criterion met Yes
<p>The Passenger Transport Executive's risk management group reviews and manages risks for the organisation and identifies corporate risks. Action to mitigate risks is monitored by this group. The risk register is reported to the Authority's Audit and Governance Committee for review quarterly. A new system was introduced in 2008/09 to manage and monitor risks and form the risk register.</p> <p>The anti-fraud and corruption policy was reviewed and revised in 2008/09 and re-issued to staff. This has been supplemented by producing a leaflet which summarises key points and which will be more readily accessible. There has been very few instances of fraud in the past.</p> <p>Internal Audit undertakes some proactive fraud and corruption work. The Authority is currently participating in the 'National Fraud Initiative' and is in the process of following up the matches identified.</p> <p>We have undertaken our triennial review of Internal Audit in 2008/09 and have provided management with a separate report of our findings. Our overall conclusion is included within the body of the Annual Audit Letter. We have agreed a detailed report and action plan with management which will be presented to your Audit and Governance Committee and will follow up Internal Audit's progress in addressing our recommendations in the 2009/10 audit.</p> <p>Our financial systems' work in the year has confirmed that the Authority has sound internal financial control for key systems (the Chief Financial Officer also provides assurance on this to the Audit and Governance Committee) and ensuring compliance with relevant laws and regulations. We have not identified any significant internal control weaknesses. The Authority has prepared an annual governance statement in line with the CIPFA/SOLACE framework.</p>	

## Appendix 1 – Value for money conclusion

### Managing resources

<b>KLOE 3.2: Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?</b>	<b>VFM criterion met</b> <b>Yes</b>
<p>The Authority only owns one asset, Wellington House, therefore some of the criteria are not directly relevant. The Passenger Transport Executive manages the operational assets which are used in delivering the Authority's policies. This may change in the future when the Authority takes the lead on the Local Transport Plan. We have therefore included the findings from the Passenger Transport Executive's perspective below.</p> <p>The Executive has an Asset Management Plan and an asset register to manage its assets. The Executive is currently (2009/10) specifying the requirements for a new asset management system to include key performance indicators which will enable the Executive to develop its arrangements for asset management to ensure that assets are being used effectively. There is no maintenance backlog and there is an ongoing programme of infrastructure replacement for example bus shelters.</p> <p>The Local Transport Plan demonstrates the link between strategic priorities and the capital plan for assets to meet service needs. This is further demonstrated by the new corporate plan. All schemes are presented to and approved by the Business Case Group following a standard approach which includes whole life costing. Progress on schemes is monitored by the Capital Programme Team which reports back to the Executive Board.</p>	

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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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