

Audit Plan

May 2007



Audit Plan

West Yorkshire Passenger Transport Authority

Audit 2007/2008

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

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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Introduction

- 1 This plan sets out the work your audit team proposes to undertake in relation to the 2007/08 accounts and Value for Money Conclusion. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses:
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 3 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and West Yorkshire Passenger Transport Authority (the Authority). The Audit Commission has issued a copy of the Statement to every audited body.
- 4 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.
- 5 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 6 The Code defines auditors' responsibilities in relation to:
 - the financial statements (including the Statement on Internal Control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Work under the Code of Audit Practice

Financial statements

- 7 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 8 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year.
- 9 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Authority.

Use of resources - Value for money conclusion

- 10 The Code requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 11 In meeting this responsibility, we will review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 12 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Best Value Performance Plan

- 13 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 14 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities, and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 15 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Authority with reference to:
 - our cumulative knowledge of the Authority;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with the Authority's officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 16 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will discuss any emerging risks with you on a timely basis. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
 - changes to the SORP for 2007.
- 17 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Authority to mitigate the risk, and plan our work accordingly.
- 18 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 19 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 20 The Authority participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Authority's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Voluntary improvement work

- 21 Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. We are not proposing to do any voluntary improvement work at the Authority during 2007/08.

Certification of claims and returns

22 We will continue to certify the Authority's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit fee

- 23 The details of the structure of scale fees are set out in the Audit Commission's *Work programme and fee scales 2007/08*. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 24 The total indicative fee for the audit work included in this audit plan for 2007/08 is £40,439 which compares with the planned fee of £45,200 for 2006/07.
- 25 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions the Authority could take to reduce its audit fees; and the process for agreeing any changes to the fee. The audit fee includes all work identified in this plan unless specifically excluded.
- 26 In addition we estimate that we will charge approximately £1,743 for the certification of claims and returns.
- 27 As indicated in paragraphs 2 and 18, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 24 above. Any changes to the fee will be agreed with you.

Other information

The audit team

- 28 The key members of the audit team for the 2007/08 audit are shown in the table below.

Table 1

Name	Contact details	Responsibilities
Paul Lundy District Auditor	p-lundy@audit-commission.gov.uk 0113 2517130	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Clerk and Deputy Chief Financial Officer and Audit and Governance Committee.
Julie Talbot Audit Manager	j-talbot@audit-commission.gov.uk 0113 2517130	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Deputy Chief Financial Officer.
Sarah Lenton Principal Auditor (Team-leader)	s-lenton@audit-commission.gov.uk 0113 2517130	Key contact for detailed work.
Stephen Gregg Area Performance Lead	s-gregg@audit-commission.gov.uk 0113 2517130	Responsible for the delivery of elements of the use of resources work.

Independence and objectivity

- 29 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 30 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 31 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the District Auditor Paul Lundy in the first instance. Alternatively you may wish to contact the Yorkshire and Humberside Head of Operations Terry Carter.
- 32 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 33 Our reports will be discussed and agreed with the appropriate officers before being issued to the audit committee.

Table 2

Planned output	Indicative date
Interim Audit Memorandum	May/June 2008
Annual Governance Report	September 2008
Opinion on the Financial Statements and Value for Money Conclusion	September 2008
WGA Audit Report	October 2008
Financial Accounts Memorandum (to the Deputy Chief Financial Officer)	September 2008
Annual Audit Letter	November 2008

Appendix 1 – Initial risk assessment – use of resources

Table 3

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditors responsibilities
<p>Medium term financial strategy (MTFS) - is it sufficiently robust to address the financial pressures faced by WYPTA, notably:</p> <ul style="list-style-type: none"> • impact of appeal by First bus on concessionary fares - review of concessionary fares approach; • change to concessionary fares scheme 01/04/08; and • subsidized bus services - cost of bus contracts rising above inflation. 	<p>There is a MTFS in place.</p> <p>Corporate target for 2007/08 to 'agree three year financial strategy'.</p> <p>Work ongoing re concessionary fares approach and financial impact.</p>	<p>Yes</p>	<p>To undertake specific work on MTFS/P, using aspects of VFM conclusion criteria, CIPFA financial model and KLoE used for use of resources.</p> <p>Link to audit work planned for WYPTE.</p>	<p>VFM Conclusion criterion 8 and 9.</p>
<p>Equality and Gender legal updates. Disability Equality Duty (DED) should have been addressed by Dec 2006. Gender Equality Duty (GED) comes in April 2007.</p>	<p>There is a copy of Metro's Disability Equality Scheme on the Metro website which refers to the new DED requirements. Target to achieve Equality standard 4 in 2007/08.</p>	<p>Yes</p>	<p>To look at as part of VFM conclusion - use as tracer re: implementing new legislation, 2006/07 and 2007/08.</p>	<p>VFM conclusion criterion 2 and 5.</p>

14 Audit Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditors responsibilities
<p>There is a risk that we do not have sufficient evidence to give VFM conclusion opinion, notably around VFM conclusion criterion 1 and 3:</p> <ul style="list-style-type: none"> • 1: The PTA has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives; and • 3: The PTA has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary and reporting to members. 	<p>To allow more time for this in 2006/07 and 2007/08 VFM conclusion work. Could PTA undertake a self-assessment?</p>	<p>Yes</p>	<p>Undertake more detailed work on VFM conclusion in 2006/07 and 2007/08, specifically around criterion 1 and 3.</p>	<p>VFM conclusion criterion 1 and 3.</p>
<p>There is a risk that we do not have sufficient evidence to give VFM conclusion opinion 7 re: VFM – the PTA has put in place arrangements to manage and improve value for money.</p>	<p>To allow more time for this in 2006/07 and 2007/08 VFM conclusion work. Could PTA undertake a self-assessment - links to PTA assessing themselves against 'Use of Resources' criteria for CPA.</p>	<p>Yes</p>	<p>Undertake more detailed work on VFM conclusion in 2006/07 and 2007/08, specifically around criteria 7. Link to PTA CPA self-assessment. Also link to work on MTFS.</p>	<p>VFM conclusion criteria 7.</p>
<p>Government proposal to enhance the powers of metropolitan transport authorities. Following the White Paper, DfT will produce proposals for PTA role, but these are not available yet. This may result in a clearer more powerful role for PTAs to deliver the LTP. The Queen’s Speech also proposed a Road Transport Bill to reform road pricing powers, give councils more say over the operation of bus services, and reform the Passenger Transport Authorities and Executives. A draft bill is proposed for March 2007.</p>	<p>WYPTA/PTE already thinking about the potential changes. MetroPlan 2007/08 has ‘shape forthcoming legislation’ as a target.</p>	<p>Yes - but not able to assess level of risk at present.</p>	<p>No specific work planned at present but will keep up to date as it develops and re-assess audit risk.</p>	<p>VFM conclusion criteria 5.</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditors responsibilities
Transport Innovation Fund (TIF) - funding linked to road pricing. WYPTE currently putting together a bid for TiF funding to be in by Autumn 2007. Replacement for Supertram scheme, looking at BRT (Bus Rapid Transport) for Leeds. Still awaiting NAO report on Supertram.	Work is currently ongoing on the bid. Looking at capacity issues.	Yes, as is potentially a high risk project.	No specific work planned at present but will keep up to date on this project as it develops and re-assess audit risk.	VFM conclusion criterion 1 and 6.

1 Please see Appendix 4 for details of the VFM Conclusion criteria.

Appendix 2 – Audit fee

- 1 Table 4 provides details of the planned audit fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Financial Statements	30,785	32,614
Use of Resources	8,938	12,586
Whole of government accounts	456	N/A
National Fraud Initiative	260	N/A
Total audit fee	40,439	45,200
Certification of grant claims and returns	1,743	1,534

- 2 The fee proposed for 2007/08 is £40,439 which is within the normal level of variation specified by the Commission.
- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Authority. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the specific risk factors listed in Appendix 1.

Assumptions

- 7 In setting the fee, we have assumed that:
- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by (date to be agreed);
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions the Authority could take to reduce its audit fees

- 10 The Audit Commission requires its auditors to inform an authority of specific actions it could take to reduce its audit fees. At this stage we have not identified any specific actions the Authority could take.

Process for agreeing any changes in audit fees

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Clerk and Deputy Chief Financial Officer. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the Authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:
- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor’s opinion and conclusions, it should be clearly differentiated within the audit plan as being ‘additional work’ and charged for separately from the normal audit fee;
 - auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
 - the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
 - the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
 - the District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 4 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.