

Statement on Internal Control

1. Scope of Responsibility

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

The overall system of internal control has been in place at the Authority throughout the year ended 31 March 2006 and up to the date of approval of this annual report and accounts with elements being altered during the period to reflect changes being made to develop and improve the system.

3. The internal control environment

The key elements of the corporate governance and internal control environment include:-

- a) Corporate policies and objectives set and communicated by the Authority.
- b) Regular monitoring of achievement of the Authority's policies and objectives
- c) Ensuring compliance with established procedures, laws and regulations
- d) Risk management being embedded in the activities of the Authority
- e) The financial management of the Authority, including financial controls and the reporting of financial transactions
- f) external reviews carried out by auditors and other agencies to achieve Chartermark, IIP and other accreditations thus creating a workplan for future improvements.

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4. Review of Effectiveness

The Authority has responsibility for conducting a continuous review of the effectiveness of the system of internal control. This review is informed by the work of the Internal Audit section and that of management within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by External Auditors.

The Authority has created a structure consisting of a series of specialist working groups covering all areas of its activities. These working groups develop policy and monitor its implementation receiving regular reports on all aspects of the Authority's business.

The Authority has in place a system based on a framework of standing orders, financial regulations and administrative controls including codes of conduct and administrative policies and procedures. All administrative controls and financial instructions are reviewed on a regular basis by the Authority's management and Internal Audit. Standing orders and financial regulations are also re-approved annually by the Authority. In terms of financial accounting the Authority utilises the core financial system of the Executive which is reviewed annually by Internal and External Audit.

The Executive's Internal Auditor is retained as the internal auditor for the Authority, has drawn up an audit plan in consultation with the external auditor and is undertaking audit reviews. All such plans and reviews are being submitted to the Clerk and the Chief Financial Officer.

The work of the Internal Auditor is informed by an assessment of risk derived from a risk register linked to that of the Executive. The Authority and Executive have in place comprehensive risk management arrangements. The Executive Risk Management Group meets on a regular basis to consider the risks facing both the Authority and the Executive and to assess the action taken to minimise such risks. The results of the reviews of the Risk Management Group are included in separate and joint risk registers for the Authority and Executive which are regularly updated to take account of the changing risk environment.

The Authority considers the advice of the external auditor and other advice received.

5. Internal Control

Investigation of a financial irregularity

Throughout the year the Authority had in place a system based on a framework of standing orders, financial regulations and administrative controls including codes of conduct and accountability. Of these the Authority considered reports on the standing orders and financial regulations in July 2005. All other administrative and financial instructions were also reviewed and updated during the year.

Notwithstanding the Authority's internal controls a financial irregularity was discovered. As a result an immediate review was undertaken of control procedures and staff instructions.

Current Action Plan

This section summarises other issues that have been identified and considered during the year on which action is being further considered.

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Corporate Governance

Corporate governance arrangements in relation to the Authority's policies and controls are being reviewed. The structure of the Authority and its Working Groups was reviewed in 2005 and further consideration is now being given to the development and creation of a Member group to cover all audit and governance arrangements.

Review of Internal Controls

Apart from the review of the financial control procedures referred to above there are a number of other aspects on which action was completed in 2005/06 or is ongoing. These include:

a revised joint code of conduct for Authority and Executive staff,

an internal comprehensive performance review in conjunction with the Audit Commission,

a revision to the service agreement under which Leeds City Council acts for the Authority in Treasury matters

further development of the audit and risk management arrangements

All of these are completed or currently underway.

6. Conclusion

During 2005 a financial irregularity was discovered. As a result of this the Authority's financial controls were reviewed. This along with the above action plan will further enhance the general internal control environment.

Chairman

**K Preston
Clerk to the Authority**

**September 2006
West Yorkshire Passenger Transport Authority**