

Annual Audit Letter

November 2006



# Annual Audit Letter

**West Yorkshire Passenger Transport Authority**

**Audit 2005/2006**

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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## The purpose of this letter

- 1 The purpose of this Annual Audit Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. The format this year is shorter than previous years' to avoid repeating details from other reports we have issued during the year, particularly the Annual Governance report issued on 15 September 2006.
- 2 Although this letter is addressed to the members of West Yorkshire Passenger Transport Authority (the Authority), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 3 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

## The responsibilities of the auditor and the Authority

- 4 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 5 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

## The scope of our work

- 6 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
  - the Authority's accounts; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 We are also able to carry out inspections (but have not undertaken any inspections in the last year).

## The audit of the accounts

- 8 We gave an unqualified opinion on the financial statements on 28 September 2006, in advance of the deadline of 30 September 2006.
- 9 The draft accounts presented for audit were available on time. Our Annual Governance Report that we reported to the Audit and Governance Committee (ie 'those charged with governance') on 15 September 2006, set out the amendments that were made to the draft accounts to enable an unqualified opinion to be issued.
- 10 Unfortunately, due to an alleged fraud which was discovered in June 2005, we are unable to formally conclude the audit and subsequently issue our audit certificate until the criminal enquiry into the alleged fraud is completed.

### **Recommendation**

*Strengthen further the internal quality assurance processes for the production of the financial statements to ensure the potential misstatements are identified before the accounts presented for approval and for audit.*

## Use of resources

### **Financial position**

- 11 The Authority's financial standing is inextricably linked to the Passenger Transport Executive (the Executive). Over 90 per cent of the Authority's revenue expenditure is the revenue grant paid to the Executive. Income is received principally from the five district councils, by way of the levy, and revenue grant from central government. The Authority has a good record of budgetary control and continues to monitor its budget position throughout the year to ensure that expenditure is kept within budget constraints.
- 12 The Authority's general fund reserves at 31 March 2006 were £5.2m, an increase of £0.1m over the previous year end. The reserves balance equates to almost 6.6 per cent of annual net expenditure and adequately reflects the Authority's plans and policies.
- 13 The Authority has identified that, during 2006/07, it will make use of £1.5m of its general fund reserves. This will leave available reserves of £4.7m at 31 March 2007, equivalent to around 3.5 per cent of annual net expenditure. The use of these reserves is an integral part of the Authority's medium term financial strategy, and this has been agreed with the district councils.

## Value for money conclusion

- 14 We are required to issue a conclusion on whether we are satisfied that 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 (VFM) conclusion and requires the review of the following criteria agreed by the Audit Commission in relation to the Authority's arrangements for:
- monitoring and scrutiny of performance;
  - maintaining a sound system of internal control;
  - managing its significant business risks;
  - managing and improving value for money;
  - ensuring that its spending matches its available resources;
  - managing performance against budgets; and
  - promoting and ensuring probity and propriety in the conduct of its business.
- 15 Our audit work to support our VFM conclusion principally consisted of a review of the Authority's corporate governance arrangements. This work resulted in a report with recommendations for improvement, which are summarised below. However, our overall conclusion was that the Authority has adequate arrangements in place in relation to all of the above criteria and an unqualified value for money conclusion was issued.

<b><i>Recommendation</i></b>
<i>R1 Formal protocol covering officer/member relationships should be produced.</i>
<i>R2 The roles and responsibilities of the Monitoring Officer, as they operate in practice should be approved by the Audit &amp; Governance Committee.</i>
<i>R3 Gap analysis should be performed to ensure members' training programme is sufficient. The training programme should be formally documented and circulated to members.</i>
<i>R4 The current roles and responsibilities of the Clerk/Director General and non-executive directors at the Executive should be reviewed to ensure they remain appropriate at a time when standards of governance across the public and private sectors are being reviewed.</i>

## Closing remarks

- 16 This letter has been discussed and agreed with the Clerk and the Deputy Chief Financial Officer. A copy of the letter will be presented to the Audit and Governance Committee on 28 November 2006, and copies will be provided to all Authority members.

- 17 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

**Table 1      Reports issued during the year**

2005/06 reports issued

<b>Report</b>	<b>Actual date of issue</b>
Audit Plan	4 April 2005
Annual Governance Report including opinion on accounts and VFM conclusion	15 September 2006
Review of Internal Audit	9 October 2006
Overview of Governance Arrangements	7 November 2006
Auditor's report on the Best Value Performance Plan	13 November 2006
Annual Audit Letter	28 November 2006

I would like to take this opportunity to thank the Authority for its assistance and co-operation during the course of the audit.

**Paul Lundy**  
**District Auditor**  
 November 2006