

Tyne & Wear Integrated
Transport Authority

Annual Audit Letter

on the 2010/11 Audit

November 2011

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1. Key messages

In 2010/11 the Authority was required for the first time to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”). The adoption of a Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS resulted in a number of changes to accounting policies and the restatement of both the 2008/09 and 2009/10 accounts.

The Statement of Accounts was prepared, audited and closed in accordance with the agreed timetable. The Authority achieved a good standard of financial reporting. Several adjustments impacting the reported financial position were processed. These did not impact the overall resources available to the Authority as they represented timing issues in relation to the recognition of the income involved. A number of presentation and disclosure amendments were also made, notably the inclusion of additional disclosures in the group accounts.

We issued an unqualified audit opinion on the Statement of Accounts and an unqualified value for money conclusion on 30 September 2011.

The audit certificate of completion of the audit was also issued on 30 September 2011.

We did not identify any significant weaknesses in the financial reporting systems and control observations noted in our report are considered to be minor. Control observations were reported to the Standards and Audit Committee on 16 September and the full Authority on 22 September 2011 as part of our report on significant matters arising from our audit.

The Whole of Government Accounts return was presented for audit by the deadline set by HM Treasury. We issued an unqualified opinion on the Whole of Government Accounts return on 30 September 2011.

Action needed by the Authority

The Authority needs to:

- continue to focus on meeting the financial reporting timetable; and
- implement the actions noted in the management response for each of the control observations raised in our report to those charged with governance.

2. Purpose, responsibilities and scope

The purpose of this letter

The purpose of this Annual Audit Letter is to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2011.

Although this letter is addressed to the members of Tyne & Wear Integrated 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 and also on the Authority's website.

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.

Responsibilities of the Auditor and the Authority

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including Integrated Transport Authorities.

As the Authority's appointed external auditor, we are 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, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation. We conducted our work on the value for money conclusion in line with guidance received from the Audit Commission in respect of other local government bodies for the financial year ended 31 March 2011.

3. The audit of the accounts

Key issues arising from the audit of the accounts

We issued an unqualified opinion on the Authority's 2010/11 accounts on 30 September 2011, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters arising from the audit. A detailed report was discussed with the members of the Standards and Audit Committee on 16 September and the full Authority on 22 September 2011 and there were no key issues to report.

We received a set of draft accounts in advance of the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process and responded swiftly to all queries. This performance reflects well on the professionalism of the finance staff and their commitment to maintaining high-level controls over financial systems. Amendments were made to the reported financial position both for the current and prior year:

- prior year reserves were increased by £1.7 million and current year income reduced by £2.8 million in relation to contributions received from local authorities for NESTI (North East Smart Ticketing Initiative), in order to bring the accounting treatment into line with IFRS;
- current year income was further reduced by £2.4 million to correct an error in the apportionment of deferred income in relation to the concessionary arrangements for TT2.

These adjustments did not impact the overall resources available to the Authority as they represented timing issues in relation to the recognition of the income in both cases. In addition, some of the disclosures amended and additional group account disclosure notes were included to bring the accounts into line with CIPFA's "Group Accounts in Local Authorities" manual, the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on IFRS and other relevant legislation.

We have considered the financial standing of the Authority as at 31 March 2011. We have assessed this based on current/ongoing expenditure demands, expected grant income and the current cash position of the Authority. The financial standing of the Authority is considered to be satisfactory.

Audit certificate

When our audit is complete we are required to certify the closure of the audit. The audit certificate was issued on 30 September 2011.

4. Value for money

Background

Under the Code of Audit Practice, we are required to give a 'yes/no' opinion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This is known as the value for money conclusion and is given within our audit report on the Authority's Statement of Accounts.

We are required to assess how well the Authority manages and uses its financial resources by performing an unscored assessment in three theme areas as specified by the Audit Commission in accordance with their guidance for other local government bodies. Within this, we are required to consider arrangements in four of the ten key lines of enquiry (KLOE) in any one year. This assessment will inform our value for money conclusion.

The value for money assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The specific KLOE considered in 2010/11 are:

- sound and strategic financial management:
 - financial planning and financial health;
 - understanding costs and achieving efficiencies;
 - financial reporting;
- good governance:
 - risk management and internal control;
- the management of natural resources, assets and people:
 - none selected for consideration in 2010/11.



Value for money conclusion

Having performed our work in line with guidance received from the Audit Commission we issued an unqualified value for money conclusion for the 2010/11 financial year. This means that we are satisfied that, in the areas reviewed, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources during the year.

5. Other matters

Audit Commission

On 13 August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission. Consultation on the new audit framework closed on 30 June 2011 and proposals will be included in a draft bill to allow full Parliamentary scrutiny in due course. The Commission is in the process of undertaking a market tender exercise to outsource the audits currently undertaken by its in-house practice with new appointments expected to apply from the 2012/13 financial year. Audits already outsourced, including this Authority, are not expected to be affected by this change in appointments.

Reports issued

Reports issued during the course of the 2010/11 audit included:

- fee letter in April 2010;
- report to those charged with governance on the 2010/11 audit in September 2011; and
- annual audit letter in November 2011.

Analysis of audit fees

Audit fees charged are as follows:

	2011 £'000	2010 £'000
Total fees for work carried out under the Code of Audit Practice	37	47*

* payable to the Audit Commission, the previous external auditors to the Authority

We have not performed any non-audit services in either the current or prior year. In addition there have been no claims that required certification or additional Value for Money projects undertaken in the current or prior year.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

5. Other matters (continued)

Approach to local value for money audit work from 2011/12

Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2011/12 onwards. In line with revised guidance from the Audit Commission, we will apply a lighter-touch approach to the VFM audit work and will meet our VFM duty by:

- reviewing the annual governance statement (AGS);
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider any impact on the auditor's responsibilities at the Authority; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

At this stage, no work has been mandated by the Commission for 2011/12. The local risk assessment will be based on a reduced number of reporting criteria specified by the Audit Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

In line with our statutory duty, we will conclude whether or not there are any matters arising from our VFM work that we need to report. We will report the results of any local VFM audit work and the key messages for the Authority in our annual report to those charged with governance and in the annual audit letter.

6. Closing remarks

This letter has been discussed and agreed with the Deputy Clerk and Treasurer. A copy of the letter will be provided to all members.

We would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit. Our aim is to deliver a high standard of audit which makes a positive and practical contribution which supports the Authority's own agenda. We recognise the value of your co-operation and support.



Deloitte LLP

Chartered Accountants

Newcastle upon Tyne, England

8 November 2011

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 and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the Audit Commission.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party since this report has not been prepared, and is not intended, for any other purpose.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.

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