

Annual Audit Letter

Greater Manchester Passenger Transport Executive

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The PTE has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Traffic light explanation

Red  Amber  Green 

My report concerns the audit of Greater Manchester Passenger Transport Executive's (GMPTE's) financial statements for the year ended 31 March 2011 and my conclusion on GMPTE's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

With effect from 1 April 2011, GMPTE was renamed Transport for Greater Manchester (TfGM), and has taken on additional functions and responsibilities. These changes follow the establishment of the Greater Manchester Combined Authority and the Transport for Greater Manchester Committee (TfGMC).

Audit opinion and financial statements

I issued an unqualified opinion on the PTE's 2010/11 financial statements on 29 July 2011. I am pleased to report that the PTE's financial statements were prepared to a high standard with good supporting working papers.

The transition to the International Financial Reporting Standards based Code of Accounting Practice represented a significant change to the accounting framework for PTEs. GMPTE managed this transition well and I comment further on this on page 6 of this report.

I identified a small number of misstatements in the PTE's draft financial statements. The PTE amended its accounts appropriately and none of the adjustments affected the surplus for the year or the reserves reported in the draft statements.

Value for money

I issued an unqualified Value for Money (VfM) Conclusion on 29 July 2011 stating that the PTE had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

My conclusion was based on my assessment of the following four areas specified by the Audit Commission:

- financial planning and financial health;
- understanding costs and achieving efficiencies;
- financial reporting; and
- risk management and internal control.

I provide a summary of assessments in these areas on page 7 of this report.

Current and future challenges

Financial resilience

Transport for Greater Manchester, along with other public sector bodies, is facing increasing financial pressures following the economic downturn. Efficiency plans are in place and TfGM expects to achieve its revenue and capital savings targets for 2011/12. TfGM will need to continue its efforts to deliver value for money by directing resources to priority areas, maintaining financial balance and securing longer term financial resilience.

Financial reporting

Following the creation of the Greater Manchester Combined Authority and the Transport for Greater Manchester Committee, some transport-related services and functions previously managed and delivered by other local authorities in Greater Manchester transferred to TfGM. These transfers will need to be accounted for by TfGM for the first time in its 2011/12 financial statements. I will liaise with TfGM's finance officers as their proposed accounting treatment develops to ensure the 2011/12 financial statements are consistent with the requirements of the accounting Code of Practice.

Future developments

TfGM is delivering a significant programme of investment in public transport, including schemes which are part of the Greater Manchester Transport Fund. TfGM has well established structures, project and risk management arrangements in place to manage the programme of public transport works and there is an assurance framework in place to inform the governance of the programme.

Capital investment on this scale brings with it significant business risks. TfGM will need to continue to review and refine its arrangements to ensure the continued success of its investment programme.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I gave an unqualified audit opinion on GMPTE's 2010/11 financial statements on 29 July 2011.

The PTE prepared well for the introduction of the International Financial Reporting Standards (IFRS)-based Code of Accounting Practice. Regular update papers on IFRS implementation have been presented to the PTE's Audit Committee since late 2008 and the PTE identified at an early stage the key actions it needed to complete to manage the transition. Officers of the PTE prepared a series of template accounts incorporating the changed and additional disclosure requirements of the IFRS-based Code. The timely preparation of these templates meant I was able to review them and provide feedback well in advance of the preparation of the draft 2010/11 financial statements.

The PTE also played a key role in driving the IFRS transition agenda through the national PTE group network, helping to ensure a consistency of approach, nationally, on key issues.

Significant weaknesses in internal control

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

Value for money

I considered whether the PTE is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. My overall conclusion is that the PTE has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
Managing finances	
1. Financial planning and financial health	<p>The PTE's 2010/13 Business Plan includes a three year financial plan, which the PTE reviews and updates annually. The Plan also sets out the PTE's strategic objectives, key business priorities and risks to their delivery. It takes into the account the Greater Manchester Transport Fund (GMTF) programme of investment in public transport and the financial pressures arising from the economic climate.</p> <p>The PTE monitors its financial health through regular internal reporting. It has a good record of performing within budget and has reported a small surplus for the 2010/11 financial year.</p> <p>The PTE provided regular performance reports to the Integrated Transport Authority (ITA) throughout the financial year. Reports included both financial performance and performance against agreed key indicators.</p>

Criterion

Key messages

2. Understanding costs and achieving efficiencies

The PTE has set key business priorities that include the improvement of organisational effectiveness and value for money. There were monthly reports to the Board on performance measures associated with the business priorities, and quarterly reports to the ITA throughout the year.

Value for money is a key consideration in the PTE's planning and delivery of key business developments. It challenges costs through effective project initiation, procurement and project management processes.

There was monthly monitoring of the three year procurement strategy during 2010/11. This helped ensure that the PTE met and exceeded its savings targets for the year.

The monthly Business Performance Reports to the Board highlighted key cost areas, variances from budget and provided explanations for variances.

3. Financial reporting

The Business Performance Reports include detailed analysis of the PTE's financial position. They report separately the non-Metrolink and Metrolink revenue and capital budgets, with details of expenditure for the month and year-to-date. The reports combine financial and non-financial information and explain significant variances from budget along with any appropriate corrective actions. Reported information is timely, accurate and consistent with externally reported financial information.

The PTE provided regular reports on financial matters to the ITA during the year. These included draft and final annual budgets, quarterly revenue and capital monitoring including updates on the GMTF.

Management managed well the transition to the IFRS-based CIPFA Code of Practice on Local Authority Accounting.

The PTE prepared its draft 2010/11 financial statements in accordance with agreed timescales and published the 2009/10 audited statements on its website.

Criterion	Key messages
Governing the business	
<p>4. Risk management and internal control</p>	<p>The PTE has further developed its risk management arrangements during 2010/11. It has a documented risk management strategy which it reviews and updates annually. Risks link to the PTE's key business priorities, and assessments of the likelihood and impact of risks materialising lead to an overall ranking of risks within the registers. There is a risk owner for each risk and regular monitoring takes place throughout the organisation.</p> <p>During 2010/11 the PTE produced a risk management guide to help managers integrate risk management into business planning processes. The PTE also held staff events during the year to raise awareness of risk management and demonstrate risk management software.</p> <p>The PTE reviewed its Counter Fraud and Corruption Policy during the year. It again participated actively in the Audit Commission's National Fraud Initiative throughout 2010/11.</p> <p>An effective Internal Audit function is in operation at the PTE. Internal Audit developed a plan of proactive counter-fraud work within its 2010/11 audit plan and this is a positive development.</p> <p>The PTE's Audit Committee met at least quarterly throughout the year, receiving reports on risk management arrangements, the work of internal and external audit, and other matters of governance interest.</p> <p>The PTE has yet to appoint a third member to its Audit Committee. Following the resignation of one of its non-executive directors during the year, a recruitment process has commenced to fill the vacant position. It is anticipated that this person will also be a member of the Audit Committee. The TfGM Board and TfGMC members will be involved in the selection process.</p>

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 29 November 2011 and will provide copies to all Board members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the PTE during the year.

Report	Date issued
Initial audit plan and fee letter	19 April 2010
Audit Opinion Plan	4 February 2011
Annual Governance Report	22 July 2011

The PTE has taken a positive and constructive approach to our audit. I wish to thank PTE staff for their support and assistance during the audit.

Mick Waite

District Auditor

October 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee	£105,230	£111,700	(£6,470)
Non-audit work	£0	£0	£0
Total	£105,230	£111,700	(£6,470)*

* - The Audit Commission provided a rebate of £6,470 to Greater Manchester Passenger Transport Executive to subsidise the one-off element of the cost of transition to International Financial Reporting Standards in 2010/11

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the PTE on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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