

Annual Audit Letter

Greater Manchester Passenger Transport Executive
Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 3 and 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the PTE's financial statements on 29 July 2010. There was continued improvement in the quality of the PTE's draft financial statements and working papers. This increased the efficiency of the audit process and meant that only a small number of amendments were required in finalising the accounts. None of these amendments affected the financial surplus or reserves reported in the draft accounts.

Value for money

2 I issued an unqualified conclusion on the PTE's arrangements for securing economy, efficiency and effectiveness in the use of resources on 29 July 2010.

Audit fees

3 We agreed an indicative audit fee of £87,200 for the 2009/10 in April 2009. I agreed a final fee of £89,200 including additional costs of technical audit work relating mainly to Metrolink component accounting.

Current and future challenges

4 The key challenges facing the PTE from my perspective as the PTE's external auditor are as follows:

- delivering a major programme of public transport improvements within agreed budgets and timescales;
- securing financial resilience; and
- successfully managing the transition to International Financial Reporting Standards.

I comment on these challenges on page 9.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the PTE's 2009/10 financial statements on 29 July 2010, well within the statutory target date.

Overall conclusion from the audit

5 I issued an unqualified opinion on the PTE's financial statements on 29 July 2010. Management made the necessary amendments to the accounts for the small number of required changes I identified. None of the adjustments affected the financial surplus or reserves reported in the draft accounts.

6 The PTE's draft financial statements were of a good standard, produced on time and supported by good working papers. Finance staff responded thoroughly and promptly to our requests for explanations and additional information.

7 The PTE undertook a detailed exercise during 2009/10 to identify and separately account for the significant components of the Metrolink system. This exercise enabled the PTE to strengthen its accounting practice in preparation for the adoption of International Financial Reporting Standards (IFRS).

Significant weaknesses in internal control

8 I did not identify any significant weaknesses in your internal control arrangements that might have resulted in a material error in your financial statements.

International Financial Reporting Standards

9 The PTE has prepared well for the adoption of IFRS and has made good progress to date. The PTE has demonstrated leadership in facilitating dialogue and action on issues that are common to the PTEs in England.

10 The PTE identified the implications of IFRS at an early stage, and incorporated some of the accounting changes ahead of schedule in preparing the 2009/10 financial statements.

11 The PTE is continuing to prepare for full adoption of IFRS in its 2010/11 financial statements, and is regularly briefing its Audit Committee on progress.

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.

VFM conclusion

12 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Commission specifies each year the Key Lines of Enquiry (KLoE) and relevant criteria to take into account for the VFM conclusion.

13 I issued an unqualified conclusion on 29 July 2010 stating that the PTE had adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

14 The PTE has a good record of managing its budget. It again stayed within its budget and reported a statutory accounting surplus of £9.4 million for the 2009/10 year. The PTE allocated £4.95 million of this surplus to specific revenue reserves.

15 The PTE and Integrated Transport Authority (ITA) have assessed the level of general reserves they require to mitigate the risks they face. In my opinion the agreed levels of reserves and aggregate financial position are adequate.

16 Value for money is an important consideration in the planning and delivery of key business developments such as the expansion of Metrolink and the Greater Manchester Transport Fund. The PTE challenges its costs and targets efficiencies through effective procurement and project management processes.

17 The PTE is part way through a three year, 2008/09 to 2010/11, procurement strategy which aims to deliver combined revenue and capital savings of £4.2 million. Monthly monitoring takes place and the PTE has achieved savings in excess of the targets set for the first two years.

18 The PTE provides regular reports on financial matters to the ITA. These reports include proposed and final annual budgets, quarterly monitoring reports and updates on the capital programme including the Greater Manchester Transport Fund.

19 The quality of the PTE's financial statements and supporting working papers has significantly improved and good progress is being made towards the adoption of IFRS.

Governing the business

20 The PTE has continued to develop its risk management arrangements during 2009/10. It has a documented risk management strategy that identifies risks to key business priorities. It maintains risk registers at three levels, covering project risks, business unit operational risks and strategic risks. All risks are assessed for likelihood and impact and this leads to an overall ranking of risks within the registers. There is an identified risk owner for each risk and regular monitoring and reporting. There are regular reports at Project and Programme Board meetings, risk group meetings, and meetings of the Executive Group, Audit Committee and the Board.

21 The PTE has a Counter Fraud and Corruption Strategy available to its staff on the intranet. The PTE has participated in the Audit Commission's National Fraud Initiative exercise throughout 2009/10. During the year the PTE addressed two instances of fraud and has strengthened controls to reduce the likelihood of similar frauds occurring in the future.

22 The PTE has an effective Internal Audit (IA) function in place and is developing IA performance measures following our 2008/09 review of Internal Audit.

23 The PTE has a strong Audit Committee that meets at least quarterly, and provides the appropriate balance of challenge and assurance. It has approved Terms of Reference, and the appointment of a third, independent, member of the Committee referred to in last year's Value for Money Conclusion report, will be considered by the PTE for future implementation.

Managing resources

24 The PTE has strategies in place and in development to ensure it makes effective use of natural resources.

25 The PTE has calculated its carbon footprint using a globally recognised methodology. The PTE's Energy Strategy and Climate Change Strategy include aims to reduce carbon emissions over the ten years from April 2009 and targets have also been set to reduce the PTE's carbon footprint by 2014/15. The PTE also aims, through direct action and influencing others, to reduce carbon emissions from transport in Greater Manchester.

26 The PTE has been successful in bidding for funding from the Green Bus Fund and this has led to the planned introduction of 66 'green' buses across Greater Manchester. Innovative schemes are also being considered, including the use of wind turbines at Horwich Parkway and a Hydro Electric Power plant in Rochdale.

27 The PTE has taken into account the potential impact on the environment of its Metrolink expansion programme, and has carried out habitat surveys before works commence.

28 The PTE reports in the monthly Business Performance Report on its progress against environmental key performance indicators. It also publishes a wide range of environmental information on the PTE website.

29 The table below summarises my assessment of the PTE's arrangements in key areas specified by the Audit Commission.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	N/a*
Use of information	N/a*
Good governance	N/a*
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	N/a*
Workforce	N/a*

* - The Audit Commission specifies annually the Key Lines of Enquiry (KLoE) relevant to the Value for Money Conclusion (VfMC). For 2009/10 the Commission specified five KLoEs relevant to PTE VfMCs.

Approach to local value for money work from 2010/11

30 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission has determined that the current approach to VFM work will be retained for PTEs in 2010/11. The Commission intends to significantly reduce the VFM work auditors will undertake at smaller bodies, including PTEs, for 2011/12.

31 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will report the results of all my local VFM audit work and the key messages for the PTE in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial balance

32 The PTE, along with other public sector bodies, is facing increasing financial pressures following the economic downturn. Efficiency plans are in place and the PTE expects to exceed the £1.6 million of revenue and capital savings to be delivered during 2010/11. The PTE will need to continue its efforts to deliver value for money by directing resources to priority areas whilst securing financial balance and longer term financial resilience.

Transition to International Financial Reporting Standards (IFRS)

33 The PTE has made good progress to date in preparing for the transition to IFRS. The PTE will need to maintain its focus throughout the rest of the 2010/11 financial year to ensure a smooth transition and timely preparation of the 2010/11 financial statements.

Future developments

34 The PTE is in the early stages of delivering the Transport Fund, a large capital programme that will see the investment of £1,500 million in Greater Manchester's public transport and highways infrastructure. The PTE has established structures, project and risk management arrangements to manage the programme and there is an assurance framework in place to inform the governance of the programme.

35 Capital investment on this scale brings with it significant business risks and the PTE will need to continue to monitor and refine its arrangements to ensure the success of the programme over the short, medium and long term.

Closing remarks

36 I have discussed and agreed this letter with the Chief Executive and the Finance and Corporate Services Director. I will present this letter at the Audit Committee on 11 November 2010 and will provide copies to all board members.

37 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the PTE during the year.

Report	Date issued
Initial audit plan and fee letter	27 April 2009
Audit Opinion Plan	25 February 2010
Annual Governance Report	21 July 2010

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

Mick Waite
District Auditor

October 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
	£	£	£
Financial statements and annual governance statement	61,008	59,008	2,000
Value for money	26,458	26,458	0
Whole of government accounts	1,734	1,734	0
Total audit fees	89,200	87,200	2,000
Non-audit work	0	0	0
Total	89,200	87,200	2,000

I agreed an additional fee of £2,000 with the Finance and Corporate Services Director to cover the costs of technical audit work arising in the year in relation to Metrolink component accounting.

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 accounts, auditors must give their 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.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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