

Annual Audit Letter

Greater Manchester Integrated Transport Authority

Audit 2010/11



Contents

- Key messages.....3**
 - Audit opinion and financial statements.....3
 - Value for money4
- Current and future challenges5**
 - GMCA establishment5
 - Greater Manchester Transport Fund.....6
 - Financial resilience.....6
 - Financial reporting.....6
- Financial statements and annual governance statement.....7**
 - Overall conclusion from the audit.....7
 - Significant weaknesses in internal control.....7
- Value for money.....8**
- Closing remarks10**
- Appendix 1 - Fees.....11**
- Appendix 2 - Glossary.....12**

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.**

Key audit risk	Our findings	Traffic light key
Unqualified audit opinion		Red  Amber  Green 
Proper arrangements to secure value for money		

My report concerns the audit of Greater Manchester Integrated Transport Authority's (GMITA's) financial statements for the year ended 31 March 2011 and my conclusion on GMITA'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, GMITA's responsibilities transferred to the Transport for Greater Manchester Committee of the newly established Greater Manchester Combined Authority. I comment further on this on page 5 of this report.

Audit opinion and financial statements

I issued an unqualified opinion on the ITA's 2010/11 financial statements on 30 September 2011. I am pleased to report that the ITA'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 ITAs. GMITA managed this transition well and I comment further on this on page 7 of this report.

I am pleased to report that no significant adjustments were required to the draft financial statements presented for audit.

Value for money

I issued an unqualified Value for Money (VFM) Conclusion on 30 September 2011 stating that the ITA 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 my assessments in these areas on pages 8 and 9 of this report.

Current and future challenges

GMCA establishment

The Greater Manchester Combined Authority was established on 1 April 2011 following Government approval of proposals submitted by the Association of Greater Manchester Authorities on behalf of the ten metropolitan district councils and GMITA.

GMITA was abolished on 1 April 2011 and its functions, property, rights and liabilities transferred to the Combined Authority. The Combined Authority has wider functions and responsibilities than the former GMITA, including the co-ordination of economic development and regeneration across the Greater Manchester area.

The Combined Authority has prepared a constitution and agreed an operating agreement between itself and the ten district councils. These documents set out how the Authority will carry out its functions and how the Authority and district councils will co-operate in exercising their transport, economic development and regeneration functions. Detailed protocols have been agreed between the Authority, the district councils and Transport for Greater Manchester (TfGM, formerly known as the Greater Manchester Passenger Transport Executive) in relation to:

- Visitor and conference promotion;
- Housing strategy;
- Air quality;
- Post-16 education and training;
- Sustainable community strategy;
- Traffic signals;
- Transport studies and forecasting;
- Transport network management; and
- Road safety.

Good progress has been made in establishing the Authority and in clarifying its functions and responsibilities and how these will be delivered in co-operation with other organisations within Greater Manchester. This progress provides a sound foundation for the Authority to deliver on its ambitions to drive economic growth and ensure that Greater Manchester achieves its full potential.

Greater Manchester Transport Fund

TfGM is in the early stages of delivering the public transport elements of the Greater Manchester Transport Fund, a large capital programme that will see the investment of £1,500 million in Greater Manchester's public transport and highways infrastructure. 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. The Combined Authority, with the support of the Transport for Greater Manchester Committee (TfGMC), will need to closely monitor TfGM's progress in implementing its investment programme to ensure its financial and operational success over the short, medium and long term.

Financial resilience

The economic downturn has increased the financial pressures facing public sector bodies. The Combined Authority needs to build on the arrangements previously operated by the ITA to secure economy, efficiency and effectiveness in its use of resources to ensure it maintains financial balance, secures longer term financial resilience and provides value for money.

TfGM has efficiency plans in place to deliver revenue and capital expenditure savings targets during 2011/12. The Combined Authority, with the support of TfGMC, will need to monitor TfGM's performance in delivering on its savings targets whilst also directing its resources to priority areas and securing public transport services that represent value for money.

Financial reporting

The Combined Authority will prepare its first set of financial statements for the financial year 2011/12. These will need to build on the high standards of financial reporting set by the ITA. During 2011/12 the traffic signal and pedestrian crossing assets of the district councils will transfer to the ownership of the Combined Authority. The Combined Authority will also become the sole owner of two local authority companies. I will liaise with the Combined Authority's finance officers as their proposed accounting treatment for these assets and companies develops to ensure the Authority's financial statements are consistent with the requirements of the accounting Code of Practice.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I gave an unqualified opinion on GMITA's 2010/11 financial statements on 30 September 2011.

The Authority prepared well for the introduction of the International Financial Reporting Standards (IFRS)-based Code of Accounting Practice. The transition to the IFRS-based accounting framework significantly increased the disclosures required within the Authority's financial statements. Few amendments were required to the Authority's draft financial statements and none of these were significant.

Significant weaknesses in internal control

I did not identify any significant weaknesses in the ITA's internal control arrangements.

Value for money

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

I assess arrangements to secure economy, efficiency and effectiveness in the use of resources against the criteria specified by the Audit Commission. My overall conclusion is that the ITA had 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 ITA set the levy for 2010/11 with a clear understanding of the cost pressures within the current financial climate and how these are likely to affect the delivery of objectives in relation to public transport. The ITA approved a balanced budget for 2010/11 and this was based on realistic assumptions.</p> <p>Treasury management arrangements in place were robust throughout the financial year. These arrangements ensured that the Authority had sufficient cash available to meet its needs, and could meet longer term financing requirements in a planned and cost effective way.</p> <p>The Authority reported a modest financial surplus in 2010/11 and maintained a planned level of usable reserves.</p>

Criterion	Key messages
<p>2. Understanding costs and achieving efficiencies.</p>	<p>The ITA showed a sound understanding of its costs and performance throughout 2010/11. Through meetings of the Authority, the Policy & Resources Committee and the Capital Projects Committee, the ITA monitored the progress made by GMPTE in achieving efficiencies. This helped ensure GMPTE met and exceeded its savings targets for 2010/11.</p> <p>Value for Money was a key consideration in GMPTE's planning and delivery of key business developments, including the expansion of the Metrolink system. GMPTE challenged its costs through effective project initiation, procurement and project management processes.</p>
<p>3. Financial reporting</p>	<p>The ITA monitored the consolidated GMITA and GMPTE budget regularly throughout the 2010/11 financial year. Budget monitoring information was relevant and reliable and accompanied by a commentary on an exception reporting basis.</p> <p>The Authority's 2009/10 and 2010/11 financial statements met statutory requirements and timetables. They have required no material amendments in recent years and officers adjusted all non-trivial misstatements noted during our audits. GMITA's audited 2009/10 and 2010/11 financial statements are available on the Transport for Greater Manchester Committee website.</p>
<p>Governing the business</p>	
<p>4. Risk management and internal control</p>	<p>The ITA's Audit Committee met on a regular basis during the 2010/11 financial year. The ITA had a risk management strategy and risk register in place. The risk management strategy took into account how it would obtain appropriate assurances from partner organisations. The Committee revisited its terms of reference during the year and made specific reference to the Committee's role in overseeing GMITA's and GMPTE's approaches to risk management.</p> <p>GMITA's constitution included an anti-fraud and corruption policy. GMITA also monitored the counter-fraud arrangements established by GMPTE.</p> <p>A sound system of internal financial controls for key financial systems operated throughout the year. My audit did not identify any weaknesses in internal control that might lead to a material misstatement of the financial statements.</p>

Closing remarks

I have discussed and agreed this letter with the Combined Authority's Head of Paid Service and Treasurer. I will present this letter at the Audit Committee on 27 January 2012 and will provide copies to all members of the Combined Authority.

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

Report	Date issued
Initial audit plan and fee letter	19 April 2010
Audit Opinion Plan	11 February 2011
Annual Governance Report	21 September 2011

The ITA and Combined Authority have taken a positive and constructive approach to our audit. I wish to thank officers for their support and co-operation during the audit.

Mick Waite
District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	£52,994	£58,000	(£5,006)
Non-audit work	£0	£0	£0
Total	£52,994	£58,000	(£5,006)*

* - The Audit Commission provided a rebate of £5,006 to Greater Manchester Integrated Transport Authority 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 Council 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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