JOINT GREATER MANCHESTER COMBINED AUTHORITY AND EXECUTIVE
JOINT AUDIT COMMITTEE

Date: 23 September 2016
Subject: GMCA Annual Statement of Accounts 2015-16 and Letter of Representation
Report of: Richard Paver, treasurer to the Greater Manchester Combined Authority

PURPOSE OF REPORT

To submit the GMCA Annual Statement of Accounts 2015-16 for which an unqualified audit opinion is expected, and to seek approval for the Letter of Representation.

RECOMMENDATION[S]

The Audit Committee is asked to:
1. Approve the Annual Statement of Accounts 2015-16.
2. Agree that the accounts are not amended for the unadjusted misstatement identified as set out in paragraphs 5.1 – 5.2 of this report.
3. Authorise the chair of the meeting to sign the Statement of Accounts at page 27.
4. Note the amendments made to the Annual Statement of Accounts during the external audit.
5. Approve the Letter of Representation which is attached to this report, which will be signed by the Chair of the meeting and the Treasurer.

PRIORITY

Under delegated powers, the Audit Committee receives and approves the Annual Statement of Accounts 2015-16. This Annual Statement of Accounts and the Letter of Representation must be approved and signed off no later than 30 September 2016.
BACKGROUND DOCUMENTS:


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1. INTRODUCTION

1.1 The GMCA Annual Statement of Accounts 2015-16 were submitted for external audit on 30 June 2016 following certification by the Treasurer of the Greater Manchester Combined Authority (GMCA).

1.2 This report summarises the amendments that have been made to the Annual Statement of Accounts during their audit by Grant Thornton. Further details can be found in Grant Thornton’s Audit Findings Report elsewhere on this agenda, however it should be noted that final adjustments are continuing to be agreed with Grant Thornton. Any final changes will be presented to members as an addendum to these reports if required.

1.3 There are a small number of adjustments to the main financial statements along with further adjustments to the disclosure notes.

2. THE GMCA ANNUAL STATEMENT OF ACCOUNTS 2015-16

2.1 The Annual Statement of Accounts have to comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, based on International Financial Reporting Standards, and contain the following sections:

- The Narrative Report that sets out the background to the financial year with a summary of the outturn position.

- The Statement of Responsibilities for the Statement of Accounts that sets out the responsibilities of the Treasurer.

- The Movement in Reserves Statement (MIRS) which shows the movement in the Authority’s reserves in the year split between usable and unusable reserves.

- The Comprehensive Income and Expenditure Statement (CIES) which shows the accounting cost of the Authority’s activities rather than the amount to be funded from the bottom line. The bottom line position is shown in the Movement in Reserves Statement. The Comprehensive Income and Expenditure Statement shows a deficit of £25.665m for the year. When the expenditure which is not chargeable to the bottom line is removed, the surplus for the year is £0.933m. The expenditure which does not impact on the bottom line is detailed in disclosure note 7. The main item within this category is the Authority’s capital expenditure on the assets of TfGM, which is funded from borrowings and reserves and has to be accounted for as Revenue Expenditure Funded by Capital under Statute. As at 31st March 2016 the Authority had five directly employed paid staff.
The Balance Sheet which shows the total assets, liabilities and net worth of the Authority. The Authority has long term borrowings because it is part funding the capital expenditure of TfGM. It is for this reason that the Balance Sheet of the Authority shows net liabilities of £899.267m. This is financed by usable reserves of £187.406m offset by negative unusable reserves relating to the financing of capital expenditure amounting to £1,086.673m.

The Cash Flow Statement which shows the reasons for the change in cash and cash equivalents during the year.

Each statement is preceded by a note explaining its purpose and followed by notes explaining the statements.

The main statements are then followed by the Group Accounts and disclosure notes:

The Group Accounts shows the full extent of the Authority’s economic activities by reflecting the full extent of the Authority’s involvement with its group organisations. The organisations consolidated into the Group Accounts are Transport for Greater Manchester, Greater Manchester Accessible Transport Ltd (GMATL), Commission for the New Economy Ltd and MIDAS Ltd.

The reserves of the Group analysed between usable and unusable, can be seen in detail in the Movement in Reserves Statement on page 105, and the Balance Sheet on page 109.

The Annual Governance Statement, which summaries the Authority’s review of the effectiveness of its overall governance arrangements including its system of internal control, accompanies the accounts.

3. CHANGES TO THE GMCA CORE FINANCIAL STATEMENTS 2015-16

3.1 The following changes have been made to the Authority’s Core Financial Statements

Authority and Group Comprehensive Income and Expenditure Statements

3.2 The Authority and Group Comprehensive Income and Expenditure Statement (CIES) included income and expenditure relating to a contribution made to TfGM which should not have been included in the CIES. An amount of £12.5m has been excluded from both Income and Expenditure. This amendment has no net effect on the Authority’s financial position. Notes 13, 15 and 17 have also been updated to reflect the adjustment.

3.3 Income on Taxation and Non Specific Grant Income was understated by £115.4m in the both the authority and Group CIES and should not have been included within specific service income lines. This amendment has no net effect on the Authority’s financial position. Notes 13 and 41 have also been updated to reflect the adjustment.
3.4 A consolidation adjustment between Revenue Expenditure Funded by Capital under Statute and Taxation and Non Specific Grants of £5.884m has been amended due to the adjustment referenced in point 3.3. Note 41 has also been updated to reflect the adjustment.

3.5 An immaterial prior year adjustment to TfGM’s balance sheet has been moved from Passenger Transport Facilities to Running Costs of £1.226m.

Authority and Group Balance Sheet

3.6 The short term and long term debtors balances have been amended to incorporate a split of bad debt provision. Notes 23 and 44 have also been updated to reflect the adjustment.

3.7 The consolidation of debtors and creditors values for the group have been amended. Notes 44 and 46 have also been updated to reflect the adjustment.

Authority and Group Movement in Reserves Statement and Cash flow Statement

3.8 The amendments discussed above have also been reflected in the Movement in Reserves statement and Cash flow Statement where applicable.

3.9 In addition the 2014/15 Movement in reserves Statement has been re-presented to move an amount of £21.6m between columns in connection to net defined pension liability.

4. CHANGES TO THE GMCA DISCLOSURE NOTES 2015-16

4.1 In addition to the amendment to the primary statements there are amended disclosures made in the following notes to the accounts

<table>
<thead>
<tr>
<th>Note</th>
<th>Area</th>
<th>Amended Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrative Report</td>
<td>Narrative Report</td>
<td>Various amendments to agree to the statements and disclosure notes.</td>
</tr>
<tr>
<td>17 GMCA &amp; 64 Group</td>
<td>Segmental Reporting</td>
<td>Notes updated to include prior year comparatives with 2015-16 table updated to incorporate in year amendments.</td>
</tr>
<tr>
<td>27 GMCA &amp; 43 Group</td>
<td>Financial Instruments</td>
<td>The maturity of the EIB loan has been amended and assets held for sale are now reported as a different class of financial asset. Introduction of narrative to explain the fair value methodology within the group note 43. A further amendment made to amend the understatement of PWLB loans for the group. Impairment of debtors figure amended to link to note 37.</td>
</tr>
<tr>
<td>28 GMCA</td>
<td>Nature and Extent of Risks Arising from Financial Instruments</td>
<td>Financial liabilities due in less than one year have been adjusted.</td>
</tr>
</tbody>
</table>
### Amended Disclosure

<table>
<thead>
<tr>
<th>Note</th>
<th>Area</th>
<th>Amended Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 GMCA &amp; 62 Group</td>
<td>Related Party Transactions</td>
<td>Amendments have been made to agree to balances with related parties and reflect note numbers for subsidiaries.</td>
</tr>
<tr>
<td>32 / 33 / 34 GMCA &amp; 55 / 56 / 57 Group</td>
<td>Notes to the Cash Flow Statement</td>
<td>Notes updated to reflect changes in other areas of the accounts</td>
</tr>
<tr>
<td>Reconciliation CIES Group</td>
<td>Reconciliation CIES Group</td>
<td>Reconciliation amended to agree to the main statement.</td>
</tr>
<tr>
<td>47 Group</td>
<td>Property, Plant &amp; Equipment</td>
<td>Formulae correction to ensure consistency with group balance sheet.</td>
</tr>
<tr>
<td>59 Group</td>
<td>Employee Benefits – Pension Costs</td>
<td>Amended to include Commission for New Economy Limited figures.</td>
</tr>
<tr>
<td>60 Group</td>
<td>Contractual Commitments</td>
<td>Updated the figure in relation to Commission for New Economy Limited with regard to lease commitments.</td>
</tr>
<tr>
<td>61 Group</td>
<td>Staff Costs</td>
<td>Updated with figures from group entities.</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Presentation</td>
<td>Various presentational amendments made.</td>
</tr>
</tbody>
</table>

### UNADJUSTED MISSTATEMENT

5.1 During the course of the audit Grant Thornton have identified a debtor that was included into the Authority accounts in relation to the City Deal Grant for apprenticeships. This was done on the basis on correspondence from the Skills Funding Agency that the sum would be payable within 2015/16. However changes in the central government body administering this grant from the Skills Funding Agency to Department for Education has unfortunately created delays in the Authority receiving the grant income. At this stage the Authority still anticipates that the income will be received.

5.2 Whilst the amount of £1.955 million is not trivial it is under the Authority's materiality threshold of £7.3 million (1.75% of 2015/16 Gross Revenue Expenditure) as set out and agreed by Grant Thornton. Furthermore no expenditure will be incurred against this sum until an official response is received from the Department for Education. Therefore subject to member approval a decision has been made for this transaction to remain within the accounts.

### NEXT STEPS

6.1 An unqualified opinion is expected to be issued by Grant Thornton before the end of September.
7. LETTER OF REPRESENTATION

7.1 The Authority is required to provide a signed Letter of Representation to its external auditors. These representations are required to be approved and acknowledged formally by the Audit Committee. A copy of this letter is attached to this report.

8. RECOMMENDATION

8.1 The Audit Committee is asked to approve the accounts and note the amendments made to the GMCA Annual Statement of Accounts 2015-16. The committee is also asked to approve and acknowledge the Letter of Representation attached to this report, which will be signed by the Chair of the meeting and the Treasurer.