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## **Audit and Governance Committee – Item 8**

**Subject:** Financial Year-End Readiness Update

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**Sponsor:** Iain Craven

**Meeting Date:** Thursday 20<sup>th</sup> December 2019

### **1. Executive Summary:**

- 1.1 This report provides a summary update on TfN's preparation for the financial year-end, and in particular the preparation of the statutory Statement of Accounts.
- 1.2 The report identifies the obligations on TfN as a public body, and the measures it is taking to ensure that it is prepared and resourced to discharge those obligations within the timeframe specified.

### **2. Recommendation:**

- 2.1 Note the work under way to ensure TfN's readiness for the financial year-end, and the production of the statutory Statement of Accounts.

### **3. Issues:**

- 3.1 In line with other public bodies, TfN will be required to produce a statutory Statement of Accounts at the end of the financial year.
- 3.2 Those accounts will include the core financial statements and the notes to the accounts, but also the Annual Governance Statement, and the narrative Explanatory Foreword. The accounts will be prepared in accordance with CIPFA's Code of Practice.
- 3.3 TfN's Statement of Accounts will be audited by the external auditors (Mazars) and be presented to the Audit & Governance Committee.
- 3.4 That audit will test whether the financial statements and accompanying notes represent a true and fair view of TfN's financial affairs, but also offer a more qualitative value-for-money assessment.
- 3.5 The Statement of Accounts are an inherently technically complex set of documents that require a significant amount of investment in time and resource.

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- 3.6 That investment will place a strain on the TfN Finance team, displacing other core business as usual activity.
- 3.7 To enable TfN to deliver on its obligations and produce a high-quality set of accounts in the necessary timeframe, TfN has started a number of work-streams to ensure readiness by the end of the financial year.
- 3.8 These workstreams focus on developing existing assets (both people and systems) and bringing in complementary external specialist skills and support. The workstreams centre on:
1. Enhancing existing skills through training;
  2. Developing ERP functionality to support systems-based output of core financial statements and reports;
  3. Engaging with the external auditors on year-end requirements and planning; and,
  4. Procuring external support to enable access to expert technical advice and capacity over the year-end period.

#### Team Development

- 3.9 TfN has procured the necessary CIPFA Code of Practice documents along with practitioner guidance notes and disclosure checklists. A number of CIPFA led training and awareness courses have also been identified which will support the development of finance team members.

#### System Development

- 3.10 External ERP consultants have been engaged to support financial reporting development through the existing financial system (Microsoft Dynamics 365). These reports will support the timely production of the core financial statements and supporting notes, whilst also enabling faster production of month-end reporting which should, in turn, free up capacity.

#### Engagement with External Audit

- 3.11 Preliminary meetings have been held with the external auditor to discuss salient issues and give TfN officers a better understanding of the auditor's requirements.
- 3.12 One key issue discussed relates to the treatment of opening balances from TfN's prior 'shadow' existence, particularly around whether it would be appropriate for TfN to show brought forward balances on its 2019/20 balance sheet and prior year comparators for the notes to the accounts.



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- 3.14 It is TfN's view that activity from prior financial periods should not be reflected as brought-forward balances on TfN's opening balance-sheet. This view has been developed based upon a reasoned view of TfN's transition to operational autonomy, where a phased iterative transition was pursued.
- 3.15 That transition was not predicated on a 'big-bang' approach where contracts were novated and cash transferred on the 1<sup>st</sup> April. Instead, a more measured approach was adopted where existing contracts entered into by partners on TfN's behalf were allowed to naturally expire and year-end liabilities were settled by those bodies. Where partners did settle obligations on TfN's behalf, they were reimbursed directly by TfN or the former financial accountable body (GMCA). In turn, from the 1<sup>st</sup> April TfN began to enter into its own contracts settling its own obligations under its own legal title. In this context, TfN believes it more appropriate not to adopt other organisations' transactions into its own statements.
- 3.16 A further key issue relates to the assumed useful economic life of the intangible capital assets TfN is developing in support of the Integrated and Smart Ticketing programme. This matter is complex, as there are few ready comparators in the market from which baselines could be derived. TfN is working with professional advisors to identify what would constitute a reasonable basis for an asset-life. This deliberation is largely a technical exercise, with grant already received from the Department of Transport available to cash-flow expenditure.
- 3.17 TfN has further provided the external auditors with accounting advice commissioned from PwC in support of the Integrated and Smart Ticketing programme. That advice sets out the accounting arrangements for each phase of the programme and their transactions, along with guidance on any tax implications.
- 3.15 Summary notes setting out TfN's intentions regarding these accounting matters will be provided to the external auditors.

### External Support

- 3.16 The TfN Finance team provides full spectrum support to the organisation with a team of four officers.
- 3.17 This model was adopted with an understanding that there would be times when specialised skills and additional capacity would be required to complement the existing team.
- 3.18 TfN officers have considered a number of options to enable the organisation to deliver a set of quality accounts in a timely manner. This includes collaboration with other partners for access to their financial reporting teams, and also going to the market to secure access to both capacity support and experts.

- 3.19 Following discussion with a number of partner bodies, it was identified that there was limited appetite for partners to support TfN in the production of its accounts. This was largely based on limited spare capacity in those teams to absorb TfN's work load, and also the limited understanding partners had of TfN's systems and business.
- 3.20 Noting this, TfN has approached the market to procure year-end support. The specification for this support is appended to this paper, but TfN has requested a model based on an embedded resource into the TfN Finance team who can coordinate support and advice from their firm's wider teams.
- 3.21 It is envisaged that the contract will awarded in the first week of January with a view to the engagement beginning by the middle of that month, concluding with the submission of the audited documents into the governance cycle.

#### **4. Options Considered:**

- 4.1 This is an update paper. No options are presented for consideration.

#### **5. Considerations:**

- 5.1 This is an update paper. No issues are presented for consideration.

#### **6. Preferred Option:**

- 6.1 This is an update paper. No options are presented for consideration.

#### **7. Appendices:**

- 7.1 Appendix 1 – TfN Year End Accounts Support Specification



## List of Background Documents

### Required Considerations

#### Equalities:

Age	Yes	No
Disability	Yes	No
Gender Reassignment	Yes	No
Pregnancy and Maternity	Yes	No
Race	Yes	No
Religion or Belief	Yes	No
Sex	Yes	No
Sexual Orientation	Yes	No

<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Equalities	A full Impact assessment has not been carried out because it is not required	Gareth Sutton	Iain Craven

#### Environment and Sustainability

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Sustainability / Environment	A full impact assessment has not been carried out because it is not required.	Gareth Sutton	Iain Craven

#### Legal

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Legal	The TfN Legal Team has confirmed there are no legal implications.	Gareth Sutton	Iain Craven



### Finance

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Finance	The financial implications have been considered and are included in the report.	Gareth Sutton	Iain Craven

### Resource

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Resource	The resource implications have been considered and are included in the report.	Gareth Sutton	Iain Craven

### Risk

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Risk	A risk assessment has been carried out and the key risks are included in the report.	Gareth Sutton	Iain Craven

### Consultation

Yes	No
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<b>Consideration</b>	<b>Comment</b>	<b>Responsible Officer</b>	<b>Director</b>
Consultation	A consultation has not been carried out because it is not required.	Gareth Sutton	Iain Craven



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## **TRANSPORT FOR THE NORTH STATUTORY ACCOUNTS PREPARATION YEAR-END SUPPORT**

### **Background**

Transport for the North is England's first sub-national transport body, being created on the 1<sup>st</sup> April 2018 through the Sub-national Transport Body (Transport for the North) Regulations 2018.

Charged with supporting economic growth in the North of England through improved transport infrastructure and connectivity, TfN is incorporated as an English local government body, and subject to local government audit regulations. Its auditors are appointed via the PSAA framework.

For financial year 2017/18 TfN is operating with an £80m budget comprising revenue and capital programmes.

TfN manages this budget via a small in-house finance team which operates full-spectrum support of all financial management, control, and reporting functions. No financial services are currently outsourced, bar payroll calculations provided by a third-party. TfN is an admitted body in the Greater Manchester Pension Fund.

TfN has recently implemented Microsoft Dynamics 365 as its Enterprise Resource Planning System.

### **Requirement**

TfN requires external expertise and capacity to allow it to discharge its financial year-end obligations in an efficient and effective manner.

This requirement reflects existing capacity constraints on the TfN financial team, a relative lack of experience in the preparation of local government statutory accounts, and the imperative of receiving a clean audit report in its first operating year.

### **Specification**

The successful bidder will provide a service that:

- Reviews TfN's existing chart of accounts and systems set-up to support the production of the statutory accounts
  - Review the chart of accounts to ensure the necessary accounts have been created, identifying new requirements as necessary
  - Test Period 13 accounting functionality in the ERP's test environment
  - Support the creation of new system reports where required
  - Support a review of how the required financial information will be extracted from the ERP and other sources
- Supports the creation of reporting templates
  - Provide compliant template reports for population
- Supports the creation of a closedown timetable
  - Support the creation of a timetable compliant with regulatory requirements
  - Support liaison with governance and business support colleagues to ensure appropriate engagement with Boards and Committees for scrutiny and approval
- Supports the identification of requirements for non-finance teams to feed into the creation and approval of the accounts



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- Support liaison with legal and governance, HR, and leadership teams as necessary to enable the production of the accounts and the Annual Governance Statement
  - Provides technical leadership for the production of the accounts
    - Provide advice and support in the design of the year-end audit file
    - Provide technical leadership on complex accounting, including pensions, lease, and asset accounting
    - Support other team members in their year-end accounting
  - Provides an independent review of the accounts before their submission into approval cycles
    - Provide pre-audit review of the prepared accounts document
    - This does not extend to sample testing of transactions
  - Supports audit liaison
    - Provide briefing notes on the accounting for key issues, where necessary
    - Support TfN in audit queries as they may arise
    - Support TfN in audit liaison meetings

**Timetable:**

January

- Introductions to TfN teams and systems
- Introductory session for TfN teams on statutory year-end requirements
- Timetable preparation
- Liaison with external auditors

February

- Period 13 testing
- Creation of new system reports





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- Creation of new template reports
  - Technical leadership on accounting review
  - Support Legal and Governance team on AGS preparation
  - Identify any system adjustments required to support year-end requirements
- March
- Support TfN in creating process for the year-end close
  - Support the preparation of the year-end audit pack
  - Finalise accounting advice
  - Support the Financial Controller in management of the closedown timetable
  - Support the collation of information from across the organisation for population of the statements and notes
- April
- Support year-end accounting processing
  - Support the Financial Controller in management of the closedown timetable
  - Support the collation of information from across the organisation for population of the statements and notes
  - Support the completion of the financial statements
  - Support the preparation of the year-end audit pack
  - Provide an independent review of the accounts before their submission into the review cycles
  - Support the Financial Controller in the preparation of supporting briefings for the accounts
- May
- Support any ongoing year-end accounting processing
  - Support audit liaison
  - Provide technical leadership on audit queries as they may arise

**Delivery Model:**

TfN envisages a delivery model whereby a firm would provide a dedicated embed into TfN, who would provide the necessary single-point of contact and coordinate bespoke requirements from specialised teams within that firm.