Annual Audit Letter

Transport for Greater Manchester

Year ending 31 March 2019

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Transport for Greater Manchester (TfGM) for the year ended 31 March 2019. Although this letter is addressed to TfGM, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 23 July 2019 included our opinion that the financial statements: • give a true and fair view of TfGM's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
Other information published alongside the audited financial statements	Our auditor's report issued on 23 July 2019 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, TfGM has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to TfGM.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to TfGM and whether they give a true and fair view of TfGM's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to TfGM's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to TfGM on 23 July 2019, stated that, in our view, the financial statements give a true and fair view of TfGM's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) if we decide certain items attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Risk Assurance Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 2% of gross operating expenditure	£6.598m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.198m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in TfGM's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Risk Assurance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we considered there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk by performing audit work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	There were no matters arising from our work on management override of controls.
Revenue recognition Fraud in revenue recognition is a presumed significant risk under auditing standards. Based on our initial knowledge and planning discussions we determined the risk to relate to the completeness and cut-off of transactions.	We addressed this risk by performing audit work in the following areas: • reviewed the agreement of balances exercise with Greater Manchester Combined Authority; • reviewed the reconciliation of Metrolink income, and feeder systems from the general ledger back to source; and • tested a sample of transactions either side of the year-end to confirm they have been accounted for in the correct period.	There were no matters arising from our work on revenue recognition

Our response to significant risks continued

Identified significant risk	Our response	Our findings and conclusions
Valuation of property, plant and equipment The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. TfGM has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle. The valuation of property, plant & equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there was a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.	We addressed this risk by performing audit work in the following areas: • critically assessed the valuer's scope of work, qualifications, objectivity and independence to carry out TfGM's programme of revaluations; • considered whether the overall revaluation methodology used by the valuer is in line with industry practice, the CIPFA Code of Practice and TfGM's accounting policies; • critically assessed the appropriateness of the underlying data and the assumptions used in the valuer's calculations, based on our expectations by reference to sector and local knowledge; • considered the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; • critically assessed the approach that TfGM adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the valuer; and • tested a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.	Management asked the valuer to provide a value of TfGM's land and buildings, surplus assets and investment properties as at 31 March 2019. The valuation was not materially different to the amounts disclosed in the financial statements so management decided not to process the valuation in 2018/19. We are satisfied the estimate is reasonable and materially correct.

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks continued

Identified significant risk	Our response	Our findings and conclusions
Valuation of defined benefit liability The net pension liability represents a material element of TfGM's balance sheet. TfGM is an admitted body of Greater Manchester Pension Fund, which had its last triennial valuation completed as at 31 March 2016. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in TfGM's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of TfGM's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of TfGM's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There was a risk that the assumptions and methodology used in valuing TfGM's pension obligation are not reasonable or appropriate to TfGM's circumstances. This could have a material impact to the net pension liability in 2018/19.	We addressed this risk by performing audit work in the following areas: • critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's actuary, Hymans Robertson; • liaised with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • tested payroll transactions at TfGM to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by TfGM; • reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • agreed the data in the IAS 19 valuation report provided by the Fund actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements.	Legal rulings in respect of GMP equalisation and transitional provisions created additional defined benefit liabilities. These were not taken account of in the actuary's original estimate of the defined benefit liability. Management obtained revised figures for the pension liability, taking into account the McCloud and GMP legal cases. This resulted in an increase to the pension liability and pension reserve of £6.129m. The audited statement of accounts included this adjustment.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether TfGM has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, TfGM had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment;
- working with partners and other third parties.

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at TfGM being inadequate. In our Audit Strategy Memorandum, we reported that we had identified no significant audit risks. We updated our risk assessment to the point of signing our opinion and confirm we have identified no significant audit risks in respect of our value for money conclusion.

Overall value for money conclusion

Our auditor's report, issued to TfGM on 23 July 2019, stated that that, in all significant respects, TfGM put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as TfGM's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of TfGM. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as TfGM's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit and Risk Assurance Committee in December 2018.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£33,672	£34,272*

*The final fee includes an additional charge of £600 in respect of work undertaken on the pension liability regarding GMP and McCloud legal rulings. This is subject to approval by PSAA Ltd.

Fees for other work

We confirm that we have not undertaken any non-audit services for TfGM in the year.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Government Spending Review and the impact on Government reforms

TfGM will need to incorporate the outcome of the Spending Review, due in September 2019, to its financial plan. TfGM recognises that the key issue is that it remains financially resilient and is able to deliver sustainable services. It must therefore, as part of next and subsequent years' budget setting processes clarify and quantify how it will bridge any funding gap through planned expenditure reductions and / or further income generation initiatives

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect TfGM to have at least considered the index when it is formally released.

Impact of Bus Reform

On behalf of Greater Manchester Combined Authority (GMCA), TfGM was instructed to undertake an assessment of a proposed bus franchising scheme. The assessment has been reviewed by an independent auditor and a report was sent to GMCA on 7 October 2019 which included a recommendation for it to agree to proceed with the proposed franchising scheme by undertaking a consultation in accordance with section 123E of the Buses Services Act 2017. After the consultation, the responses will be collated and a further report detailing the outcome of and response to the consultation by the GMCA would be prepared. Subsequently the Mayor of Greater Manchester will ultimately decide whether or not to proceed with the proposed scheme. If approved this has the potential to have a significant impact on TfGM's core operations. We will consider how any decision affects financial plans as part of our value for money conclusion.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. TfGM will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

CONTACT

Mark Kirkham
Partner

Phone: 0113 394 5315
Mobile: 07747 764 529
Email: mark.kirkham@mazars.co.uk

Daniel Watson
Manager

Phone: 0161 238 9349
Mobile: 07909 985 324
Email: daniel.watson@mazars.co.uk

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