



Annual Audit Letter

Year ending 31 March 2018

Transport for Greater Manchester

28 June 2018



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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Transport for Greater Manchester (TfGM) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to TfGM and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to TfGM's Audit and Risk Assurance Committee as those charged with governance in our Audit Findings ISA 260 Report on 22 June 2018.

Our work – key messages

Materiality	We determined materiality for the audit of TfGM's financial statements to be £6,385,000 which is 2% of TfGM's gross revenue expenditure.
Financial Statements opinion	We issued an unqualified opinion on TfGM's financial statements on 22 June 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that TfGM put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit opinion to TfGM on 22 June 2018.
Certificate	We certified that we had completed the audit of the accounts of TfGM in accordance with the requirements of the Code of Audit Practice. We issued our audit certificate on 22 June 2018.

Working with TfGM

We continued to enjoy an effective and professional working relationship with TfGM throughout the 2017-18 audit, holding regular liaison meetings with senior management from across TfGM throughout the year, in order to discuss emerging accounting and governance issues.

We welcomed the open and transparent nature of those discussions, allowing us to provide robust, independent challenge and support. This helped to ensure a smooth and efficient year-end audit process, culminating with the completion of the TfGM accounts audit on 22 June 2018 – significantly in advance of the statutory deadline of 31 July 2018.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by TfGM staff.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on TfGM's financial statements (section two)
- assess TfGM's arrangements for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion (section three).

In our audit of TfGM's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

2. Audit of the Accounts

Our audit approach

Materiality

In our audit of TfGM's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of TfGM's accounts to be £6,385,000 which is 2% of TfGM's gross revenue expenditure. We used this benchmark as, in our view, users of TfGM's financial statements are most interested in where TfGM has spent its revenue in the year.

We set a lower threshold of £320,000 above which we reported errors to the Audit and Risk Assurance Committee in our Audit Findings ISA260 Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of TfGM and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of TfGM's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we reviewed:</p> <ul style="list-style-type: none"> • entity controls • journal entry processes and a selection of unusual journal entries for testing back to supporting documentation • accounting estimates, judgements and decisions made by management • unusual significant transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls.</p> <p>In particular the findings of our review of journal controls and testing of journal controls and journal entries did not identify any issues.</p>
<p>Valuation of pension fund net liability</p> <p>TfGM's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Our audit work in relation to this significant risk included:</p> <ul style="list-style-type: none"> • identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • reviewing the competence, expertise and objectivity of the actuary who carried out TfGM's pension fund valuation • gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made • carrying out procedures to confirm the reasonableness of the actuarial assumptions made, including the use of an audit expert, and considering whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach • reviewing the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any significant issues in TfGM's accounting and disclosures in relation to the pension fund net liability.</p> <p>We raised one presentational disclosure change to show the split of pension scheme assets between quoted prices in an active market and those not in an active market. This change did not impact on the primary statements.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on TfGM's financial statements on 22 June 2018, significantly in advance of the national deadline of 31 July 2018.

Preparation of the accounts

TfGM made the accounts available for audit in line with the agreed timetable, and provided a very good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit, ensuring that we could achieve the early sign off in line with the planned timetable.

Issues arising from the audit of the accounts

We reported the key issues from our audit to TfGM's Audit and Risk Assurance Committee on 22 June 2018.

Our audit did not identify any adjustments affecting TfGM's overall financial position.

We highlighted a small number of adjustments and narrative changes to the notes to the accounts which were of a presentational nature only and had no overall net effect on TfGM's reported financial position.

The key messages arising from our audit of TfGM's financial statements were:

- we issued an unqualified opinion on TfGM's financial statements
- the accounts and working papers were of a high quality
- TfGM's officers responded promptly to all audit queries, facilitating the prompt completion of the audit.

Annual Governance Statement and Narrative Report

We are required to review TfGM's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in advance of the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by TfGM and with our knowledge of TfGM.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of TfGM in accordance with the requirements of the Code of Audit Practice. We certified the closure of the audit on 22 June 2018.

3. Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We did not identify any significant risks requiring us to undertake further work. We reported this outcome as part of our Audit Findings (ISA260) Report agreed with TfGM in June 2018.

Overall Value for Money conclusion

We are satisfied 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 ending 31 March 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	15 January 2018
Audit Findings ISA260 Report	13 June 2018
Annual Audit Letter	28 June 2018

Fees for non-audit services

Service	Fees £
Audit related services:	
- None	Nil
Audit related services:	
- None	Nil

Fees

	Planned £	Actual fees £	2016-17 fees £
Statutory TfGM audit	43,730	43,730	43,730
Total fees	43,730	43,730	43,730

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).



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