

# The Annual Audit Letter for Transport for Greater Manchester

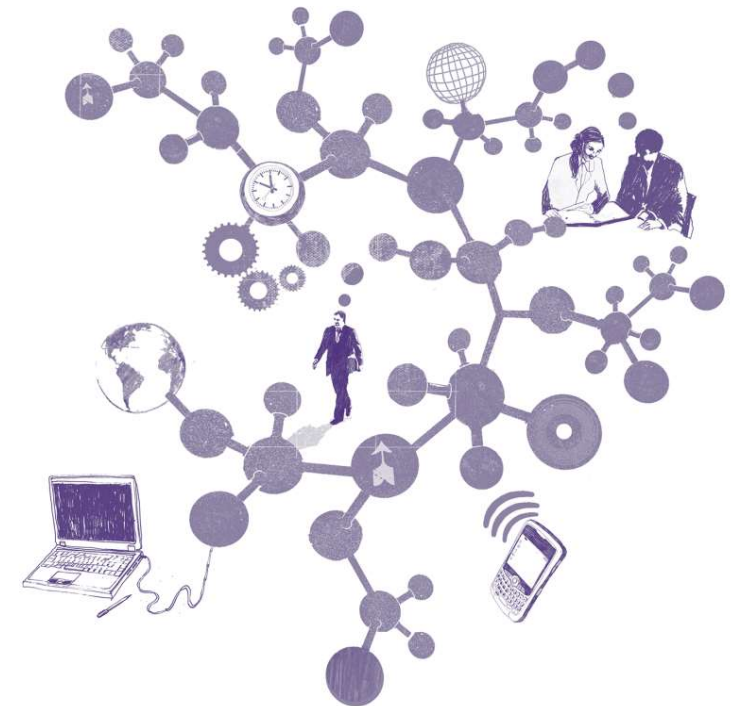
**Year ended 31 March 2017**

24 August 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Transport for Greater Manchester (TfGM) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to TfGM and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the TfGM Audit and Risk Assurance Committee (as those charged with governance) in our Audit Findings ISA260 Report on 17 July 2017.

## **Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on TfGM's financial statements on 17 July 2017. This was the first date that 2016-17 local authority based accounts could be signed off. To conclude and sign off the financial statements so promptly represents a strong level of performance by TfGM and an efficient approach to the year-end accounts and audit process.

### **Value for money conclusion**

We were satisfied that TfGM put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 17 July 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of TfGM in accordance with the requirements of the Code on 17 July 2017.

### **Working with TfGM**

We continue to enjoy a strong and professional working relationship with TfGM, holding regular liaison meetings with senior management from across TfGM throughout the year, in order to discuss emerging accounting and governance issues.

We welcome 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 earliest possible sign off of the TfGM accounts on 17 July 2017.

We look forward to continuing to work with TfGM in 2017-18. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by TfGM staff.

**Grant Thornton UK LLP**  
**24 August 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of TfGM's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of TfGM's accounts to be £5,893,000 (being 2% of gross revenue expenditure from 2015-16, after excluding the £48m rail grant from the Department for Transport now paid directly to Arriva Rail North Ltd). We used this benchmark as, in our view, users of TfGM's accounts are most interested in how it has spent the income funded from levy and grants during the year.

We also set a lower level of specific materiality of £20,000 for senior officer remuneration disclosures and related party transactions.

We set a lower threshold of £295,000 above which we reported adjustments to the Audit and Risk Assurance Committee in our Audit Findings (ISA260) Report.

### **The scope of our audit**

Our audit involved obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they were free from material misstatement, whether caused by fraud or error. This included assessing whether:

- the TfGM accounting policies were appropriate, had been consistently applied and adequately disclosed
- significant accounting estimates made by the Finance and Corporate Services Director were reasonable
- the overall presentation of the financial statements gave a true and fair view.

We also read the narrative report and annual governance statement to check they were consistent with our understanding of TfGM and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

Our audit approach was 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

Below and overleaf are the risks which had the greatest impact on our overall strategy and where we focused more of our audit work.

Risks identified in our Audit Plan & Audit Findings Report	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>TfGM's pension fund net liability, as reflected in its balance sheet, represented a significant estimate in the financial statements.</p>	<p>Our audit work performed in relation to this risk included:</p> <ul style="list-style-type: none"> <li>identifying the controls put in place by management to ensure that the pension fund net liability was not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>reviewing the competence, expertise and objectivity of the actuary who carried out TfGM's pension fund valuation</li> <li>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</li> <li>carrying out procedures to confirm the reasonableness of the actuarial assumptions made, including the use of an audit expert, and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach</li> <li>reviewing of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identify any issues in TfGM's accounting and disclosures in relation to the pension fund net liability.</p>
<p><b>Additions to Property Plant and Equipment (PPE)</b></p> <p>TfGM has an annual capital programme of over £100m. Given the level of capital spend, there was a risk that additions to TfGM's PPE may not be valid.</p>	<p>Our work performed in relation to this risk included:</p> <ul style="list-style-type: none"> <li>documenting our understanding of processes and key controls over the transaction cycle</li> <li>detailed testing of capital expenditure and balances</li> <li>reviewing a sample of capital expenditure from April 2017 to confirm it had been accounted for in the correct year.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

# Audit of the accounts

Risks identified in our Audit Plan & Audit Findings Report	How we responded to the risk	Findings and conclusions
<p><b>Operating expenses</b></p> <p>Non-pay expenditure represents a significant percentage of TfGM's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertook a walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• tested a sample of non-pay expenditure transactions from April 2017 to confirm they have been accounted for in the correct year.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, the aim of which was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016-17 CIPFA Code of Practice.</p> <p>The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes.</p> <p>A prior period adjustment (PPA) to restate the 2015-16 comparative figures was also required.</p>	<p>We performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for recording the required financial reporting changes to the 2016-17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they were in line with TfGM's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016-17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• reviewed the new segmental reporting disclosures within the 2016-17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on TfGM's accounts on 17 July 2017. This was the first day it was permitted to sign off local authority based accounts under the terms of the Accounts and Audit Regulations and significantly in advance of the 30 September 2017 national deadline. This represents a strong and efficient performance by TfGM to be able to achieve such an early completion date.

TfGM made the accounts available for audit in line with the agreed timetable, and provided a 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 of the accounts of TfGM to the Audit and Risk Assurance Committee on 17 July 2017. 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. TfGM published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by TfGM and with our knowledge of TfGM.

## **Other statutory duties**

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 TfGM'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.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 any key risks where we might need to concentrate 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 July 2017.

## **Overall VfM 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 2017.



# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

	Proposed fee £	Actual fees £	2015-16 fees £
Statutory audit of TfGM	43,730	43,730	43,730
<b>Total fees (excluding VAT)</b>	<b>43,730</b>	<b>43,730</b>	<b>43,730</b>

The proposed and actual fees for the year were in line with the scale fee for TfGM, set by Public Sector Audit Appointments Ltd (PSAA).

## Reports issued

Report	Date issued
Audit Fee Letter	April 2016
Audit Plan	March 2017
Audit Findings (ISA260) Report	July 2017
Annual Audit Letter	August 2017

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• None	-
<b>Non-audit services:</b>	
• Audit Committee and Risk Management effectiveness review	12,365
• Cost assurance review	17,914
<b>TOTAL</b>	<b>30,279</b>

## Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to TfGM. The table above summarises all other services which were identified.
- We have considered whether the other services might be perceived as a threat to our independence as TfGM's auditor and have ensured that appropriate safeguards were put in place, as set out in the table overleaf.
- The above non-audit services are consistent with TfGM's policy on the allocation of non-audit work to your auditor and have been previously approved by the Audit and Risk Assurance Committee.

# Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as TfGM's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

Detail of service provided	Service provided to	Fees	Threat?	Safeguards against the risks to audit independence:
<b>Audit related services:</b>				
None				
<b>Non-audit services:</b>				
Audit Committee and Risk Management effectiveness review	Transport for Greater Manchester	£12,365	<ul style="list-style-type: none"> <li>• Self-interest</li> <li>• Self-review</li> <li>• Management</li> <li>• Familiarity</li> </ul>	<ul style="list-style-type: none"> <li>• The self-interest threat was mitigated as the fee for the work was negligible in comparison to the Firm's overall turnover. It was a fixed fee with no contingent element.</li> <li>• The self-review threat was mitigated as we were not recommending any particular course of action and management decided whether to act on any development areas.</li> <li>• The management threat was mitigated on the basis that the review did not involve us in any management function. We did not have responsibility for operational decision making.</li> <li>• The familiarity threat was mitigated as the review was performed by members of the Firm's local government advisory team and not by the audit engagement team.</li> </ul> <p>These factors mitigated the perceived threats to an acceptable level.</p>
Cost assurance review	Transport for Greater Manchester	£17,914	<ul style="list-style-type: none"> <li>• Self-interest</li> <li>• Self-review</li> <li>• Management</li> <li>• Familiarity</li> </ul>	<ul style="list-style-type: none"> <li>• The self-interest threat was mitigated as the fee for the work was negligible in comparison to the Firm's overall turnover. It was a fee with a contingent element, however, there was an overall fixed cap on any fees of £30k.</li> <li>• The self-review threat was mitigated as we were not recommending any particular course of action and management decided whether to act on any development areas. Any savings identified in the review of historical energy and telecoms bills were significantly below our materiality.</li> <li>• The management threat was mitigated on the basis that the review did not involve us in any management function. We did not have responsibility for operational decision making.</li> <li>• The familiarity threat was mitigated as the review was performed by members of the Firm's government infrastructure advisory team and not by the audit engagement team.</li> </ul> <p>These factors mitigated the perceived threats to an acceptable level.</p>
<b>TOTAL</b>		<b>£30,279</b>		



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