Public Document

GMCA GREATER MANCHESTER COMBINED AUTHORITY

GREATER MANCHESTER AUDIT COMMITTEE

DATE: **Tuesday, 30th June, 2020**

TIME: **11.30 am**

VENUE: **MS Teams**

ANNUAL MEETING

1. WELCOME AND INTRODUCTIONS

2. APPOINTMENT OF CHAIR

To appoint a Chair for the Municipal Year 2020/21

3. MEMBERSHIP FOR 2020/21

MEMBERS

Councillor Mary Whitby	Bury Council
Councillor Sarah Russell	Manchester City Council
Councillor Colin McLaren	Oldham Council
Councillor Chris Boyes	Trafford Council
*Councillor Peter Malcolm	Rochdale Council
* Councillor James Grundy	Wigan Council
Gwyn Griffiths	Independent Member
Grenville Page	Independent Member
Susan Roberts	Independent Member
Catherine Scivier	Independent Member

*Substitute Members

4. DECLARATIONS OF INTEREST

To receive declarations of interest in any item for discussion at the meeting. A blank form for declaring interests has been circulated with the agenda; please ensure that this is returned to the Governance & Scrutiny Officer at the start of the meeting.

Report of GMCA Treasurer

17. WORK PROGRAMME 2020/21 131 - 134

18. DATES OF FUTURE MEETINGS

To be determined

For copies of papers and further information on this meeting, please refer to the website www.greatermanchester-ca.gov.uk. Alternatively, contact the following Governance & Scrutiny Officer: Governance & Scrutiny
✉

This agenda was issued on Monday 22 June, 2020 on behalf of Julie Connor, Secretary to the Greater Manchester Combined Authority, Churchgate House, 56 Oxford Street, Manchester M1 6EU

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MINUTES OF THE GREATER MANCHESTER COMBINED AUTHORITY AUDIT COMMITTEE, HELD ON TUESDAY 21 JANUARY 2020 AT MECHANICS INSTITUTE, MANCHESTER

PRESENT:

Gwyn Griffiths (Chair)	Independent Member
Councillor Mary Whitby	Bury Council
Councillor Sarah Russell	Manchester City Council
Councillor Colin McLaren	Oldham Council
Councillor Tom McGee	Stockport Council
Councillor Chris Boyes	Trafford Council
Catherine Scivier	Independent Member
Grenville Page	Independent Member
Susan Webster	Independent Member

ALSO PRESENT:

Daniel Watson	Mazars External Auditor
Mark Dalton	Mazars External Auditor

OFFICERS:

Steve Wilson	GMCA Treasurer
Sarah Horseman	GMCA Audit and Assurance
Damian Jarvis	GMCA Internal Audit
Helen Fountain	GMCA Treasury
Lindsey Keech	GMCA Treasury
Andrea Heffernan	GMF&RS Finance
Steve Annette	GMCA Governance and Scrutiny
Matt Berry	GMCA Governance and Scrutiny

AC 19/78 APOLOGIES

RESOLVED /-

No apologies were received

AC/01/20 CHAIRS ANNOUNCEMENTS AND URGENT BUSINESS

There were no chairs announcements or urgent business. The Chair welcomed Steve Wilson, the newly appointed GMCA Treasurer, and both Grenville Page and Susan Webster the newly appointed Independent Members to the Audit Committee.

AC/02/20 DECLARATIONS OF INTEREST

RESOLVED /-

There were no items of personal or prejudicial interests declared in relation to any item on the agenda.

AC/03/20 MINUTES OF THE GMCA AUDIT COMMITTEE MEETING HELD ON 9 OCTOBER 2019

RESOLVED/-

That the minutes of the meeting of the GMCA Audit Committee held on 9 October 2019, be approved as a correct record.

AC/04/20 MINUTES OF THE GMCA/GMP JOINT AUDIT PANEL

For the benefit of the newly appointed independent members, the Chair explained the devolved arrangements that were in place to scrutinise GMP's accounts and procedures and the role of the GMP Joint Audit Panel. He added that as part of the recent recruitment drive a further independent member had been appointed to the GMP Joint Audit Panel.

Sarah Horseman, Head of Audit and Assurance, added that it was important to note the GMP Police Audit Panel does have regular conversations on matters that appear on the Corporate Risk Register, and cited iOPS as a prime example.

RESOLVED/-

1. That the minutes of the Joint Audit panel held on 23 October 2019 be noted.

AC/05/20 CORPORATE RISK REGISTER UPDATE

Sarah Horseman, Head of Audit and Assurance, introduced a report that provided Members with the latest quarterly update of the Corporate Risk Register for their review.

The process for review and update of the Corporate Risk Register (CRR) was updated to Members. There is good engagement through the Governance and Risk Group and input from SMT in the process. . It was highlighted that risk descriptions, status and action plans are being challenged as part of the process and significant changes highlighted. It was noted that as well as the process for updating the CRR , there is also a general aim to do more work to review how operational risks are being managed at service level. It was stated that reviewing this item by this Committee would enable Members to have oversight of all of the strategic risks individually.

Members were informed that there has been no major change to the risk landscape with 20-recorded risks, including one new risk on Climate Change, which was noted as a 'medium' rated risk. In response to Member questions, It was confirmed that there is currently formal process for articulating risk appetite at a detailed level (for example financial, health and safety) for GMCA against which specific risk types would be managed. The Head of Audit and Assurance has taken responsibility for Risk Management and this would be addressed during 2020/21 as part of the development of the GMCA Risk strategy and policy.

It was clarified to Members that in relation to table 3.6, that there are no risks currently recorded under the thematic area of 'Statutory and Compliance' on the CRR. However, there may be risks being managed at a service level. It was also confirmed that GMP have their own organisational risk register.

Following Members reviewing all of the risks individually, the following points were made:

Brexit
Audit committee had some concerns around the Brexit risk assessment being downgraded. Members questioned what mitigation has been put in place for import / exporting arrangements. Members felt that the bigger economic risks to GM remain in place, and wished to feedback these concerns back.

CSE Independent Review .
Members felt that following the publication of the report, the focus should be on understanding the adequacy of actions being taken in response to the report and case learning.

Finance and Resources
Members expressed concern around the lack of GMCA Capital Programming/ Treasury Management function and requested an update on revised timescales for this. It was noted that there had previously been issues in GM where grant funding has not been spent in time and had been subject to clawback. It was noted that unspent capital funding is often reallocated across different capital schemes to reduce borrowings. . Steve Wilson reported that he will bring a paper to a future meeting which will provide further explanation on this.

Members also expressed the severity of impacts of not managing to utilise funding whilst some GM residents are struggling with financial hardship, highlighting the importance of this risk.

Governance and Organisation

Members enquired around GMCA staff knowledge on Information security and it was confirmed that IT security training was being rolled out to all staff including specific tests to target susceptibility to 'phishing' attacks. The lack of organisation wide BC plan was noted, which was highlighted as a concern.

Members requested a specific timescale be set for update/completion of the GMCA Contracts Register.

External facing Digital Strategy:

Members asked to note there has been a change in lead Chief Executive and Elelected member lead for this area.
Member generally noted that there were a number of references to deadlines throughout the document that have passed, requiring update.

Greater Manchester Spatial Framework
Members discussed the consultation for both the GMSF and the bus franchising proposal and debated the level of responsiveness to this process, particularly around governance arrangements.

Climate Change
Members expressed concern around GM being yet to start retrofitting 61,000 homes per year, which now creates a backlog to achieve targets. It was agreed that there is a need to galvanise activity.

Members made the point that there is currently a growing movement amongst young people with whom feel disillusioned and unengaged with current civic/political leadership with this presenting a different type of reputation damage risk to authorities and local government.

Members requested that all actionable items within the CRR be allocated realistic timescales for completion to allow them to be monitored. Members also commented that the potential impact of reputational risks to GMCA should receive greater acknowledgement in the risk register.

RESOLVED/-

1. That the update on the GMCA Corporate Risk Register be noted.

AC/06/20 INTERNAL AUDIT PROGRESS REPORT

Sarah Horseman, Head of Audit and Assurance presented a report which provided Members with an update of the progress to date in the delivery of the Internal Audit Plan. She reported that the Audit team had recruited two Principal Auditors and the new structure will be fully resourced from 1 March 2020. There were two final published audit reports issued since the last meeting which are GM Troubled Families Programme and ICT Strategy, Governance and Programme Management and several audits at fieldwork stage.

Members discussed the options around format of audit reports and papers that require submitting to Audit Committee meetings that may have sensitivity implications, and whether these should be summarised into an Executive Summary.

Action: It was agreed that a small task group of this committee including the Chair and Cllr Russell will take this offline and review/decide a way forward for sharing audit papers by reviewing implications of the full audit report and its consumption.

Members were updated on the changes to the audit plan i noted in appendix C and that a description of assurance levels is now included as requested. The emergent 2020/21 plan will come to this Committee in April.

Members enquired to what extent internal audit is sitting alongside portfolio areas and supporting in the development of key initiatives such as the Digital strategy and Housing and Planning agenda. . It was clarified that the plan next year would seek to include a balance of both assurance reviews and advisory work.

RESOLVED/-

1. That the report be noted.

AC/07/20 AUDIT RECOMMENDATIONS MONITORING

Steve Wilson , GMCA Treasurer introduced a report which provided an update to Members on the progress to date in implementing the agreed actions from internal and external audit assignments and provided assurance that a robust process was in place for follow up of recommendations.

It was noted that more audit follow up work on validating implementation rates will be undertaken in the coming year, particularly around critical and major findings and actions. t. Members wanted items to be highlighted for critical issues.

It was recommended that management should provide assurance updates on progress of significant audit recommendations to SMT for them to monitor alongside Internal Audit.

It was also stated that Members may seek further assurance over the ongoing timeline for the procurement service review and contract activity. Members specifically asked about the use of procurement waivers and general awareness in the organisation.   It was clarified to Members that a Register of key decisions is in place and Internal Audit guidance had been issued on procurement waiver usage and greater transparency
RESOLVED/-

That the Audit Recommendations Monitoring report be noted.

AC/08/20 GMCA TREASURY MANAGEMENT STRATEGY STATEMENT, BORROWING LIMITS AND ANNUAL INVESTMENT STRATEGY 2020/21

Steve Wilson, GMCA Treasurer introduced a report that set out the proposed Treasury Management Strategy Statement, Borrowing Limits and prudential Indicators for 2020/21 to 2022/23 for the GMCA. The Strategy reflects the planned 2020/21 capital programmes for GMCA transport, economic development, Fire, Police and Waste.

Members were updated that there are only minor changes to the paper. It was noted that priority update was to include in the recommendations, that in the event of an immediate crisis that requires action, there are measures that can implemented.
It was clarified that generally the GMCA manage cash flow to avoid borrowing, and that when short term borrowing is done, this is rather than using capital fund options.

Members enquired around rates for fixed terms or variable external loans and whether there is any governance to validate the loan. It was clarified that this will need to be taken back to be answered at a future meeting.

RESOLVED/-

1. That the GMCA be recommended to approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy to apply from 1 April, 2020 in particular:

    - The Treasury Indicators listed in Appendix A.
    - The Minimum Revenue Provision (MRP) Strategy outlined in Appendix A.
    - The Treasury Management Policy Statement at Appendix B.
    - The Treasury Management Scheme of Delegation at Appendix C.
    - The Borrowing Strategy
    - The Annual Investment Strategy
    - Delegation to the Treasurer to step outside of the investment limits to safeguard the GMCA's position

AC/09/20 ANNUAL AUDIT LETTER - GMCA

Daniel Watson, Mazars External Auditor introduced a report that summarised the work Mazars had undertaken as the auditors for the GMCA for the year ending 31 March 2019.

It was highlighted to Members that this has been a challenging process due to the pack used for this being originally designed for a standard local authority, which doesn't always work for a Combined Authority. It was highlighted that Page 61 highlighted responsibilities, and that there were challenges due to annual accounts not following the same format. Counter party transactions were also noted as usually 'not matching'. The Chair confirmed receipt of the standard terms of conditions.

RESOLVED/-

That the report be noted

AC/10/20 AUDIT COMMITTEE SCHEDULE OF BUSINESS

RESOLVED/-

That the report be noted

GMCA GREATER MANCHESTER COMBINED AUTHORITY

JOINT AUDIT PANEL

Date: 15th January 2020

Time: 15:45 – 17:00

Venue: Room 434, Fourth Floor, Greater Manchester Police Headquarters, M40 5BP

Attendees	Peter Morris (Chair) Foluke Fajumi (Panel) Ian Cayton (Panel) Assistant Chief Officer Lynne Potts (GMP) Janet Moores (GMP – Head of Finance) Colin Carey (GMP – Head of Information Services) Candice Simms (GMP – Minutes) Steve Wilson (GMCA – Treasurer) Sarah Horseman (GMCA – Head of Audit and Assurance) Cath Folan (GMCA - Audit Manager (Police and Crime) Mark Dalton (Mazars - Partner (Public Services))
Apologies	Chief Constable Ian Hopkins (GMP) John Starkey (Panel)

M053/JAP Welcome & Apologies for Absence

The Chair opened the meeting by welcoming attendees and noting apologies for Panel member John Starkey. The Chair also advised that an appointment had been made to the Panel and thus the Panel would return to a full complement of five.

M054/JAP Urgent Business (if any) at the discretion of the Chair

None raised.

M055/JAP Declarations of Interest

None raised.

M056/JAP Approval of previous minutes and actions

The Panel approved the previous minutes as a true and accurate record.

Following on from October's meeting minutes, GMP provided a detailed update on the progress the Force has been making with regards to the Integrated Operational Policing System (iOPS). The update highlighted that successful improvements of the systems have been made in line with the pre-planned stages of a series of enhancements. It was noted that;

- major enhancements such as security and system control have been successfully implemented to achieve the Force's objectives;
- further improvements have been made with regards to Custody and the processing of prisoners;
- the Force is working towards the final scheduled pre-planned enhancements, inclusive of the intelligence space efficiencies;
- once the systems have been delivered against the last scheduled enhancements, the Force's primary focus is to improve performance of the systems overall and deliver service improvements;
- enhancements around Mobile Working will soon be delivered, which will integrate biometrics, fingerprint recognition and the additional capabilities within iOPS; and,
- further improvements to the Data Warehouse will enhance reporting.

Members were advised of an early benefit realisation with regards to iOPS and a restructure of the City of Manchester (CoM) district. GMP noted how using a modern platform has allowed the Force to restructure at a faster pace in comparison with what would have been possible with the old systems.

Members discussed how their tour around the Operational Communications Branch (OCB) at GMP has given them a greater insight into one of the new iOPS systems, ControlWorks. Members were reassured the Force is working with staff who use the systems less frequently, ensuring help is offered at ground level.

It was noted the Force has recorded an underspend in the Information Security Transformation Programme (ISTP), and the Force is now moving into an integral part of the Governance arrangements, whereby;

- the ISTP will formally close;
- the Post Implementation Review (PIR) of ISTP will commence; and,
- the next phase 'iOPS Futures 1' will begin with a new Project Board and budget for consideration of the Deputy Mayor.

The Chair requested an update for all members regarding the iOPS report from the Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) inspection. It was noted the first draft has been received and is currently being reviewed for factual accuracy. GMP assured members that all problems identified within the report were already known to the Force and much work has been done since the inspection to improve on those areas.

M057/JAP Terms of Reference

It was noted that the Terms of Reference have been discussed at member training and will be reviewed by GMP\GMCA and Internal Audit.

ACTION: GMP\GMCA and Internal Audit to work together in reviewing the current Terms of Reference.

M058/JAP Audit Fees Consultation for 2020/21 / Update on Audit Planning 2019/20

The Chair provided an overview of the report to members, highlighting the problems external auditors had had in giving their opinions on 2018/19 accounts in line with the required timescales, the reasons for this, and the likely pressure for increasing audit fees. There were 3 main factors:

- insufficient audit resources skilled in LA accounts;
- the quality of draft accounts; and,
- more technical issues and increasing complexity of accounts.

External Audit advised there is a new Code of Audit Practice to be published by the end of January 2020, which should be implemented by 2020/21 onwards. Challenges within the audit sector have been recognised and there are currently several options being discussed to overcome these.

Another important review being currently undertaken is a review of financial reporting and audit in Local Government, led by Tony Redmond. Management Judgement is important in account preparation, and it's important for the external auditor to understand how these judgements are applied and challenged where appropriate.

Members were advised there are limited opportunities to recruit due to the shortage of trained and skilled auditors in the public sector job market and a solution is yet to be determined. It was noted that GMP's External Auditors did relatively well in terms of audit output in 2018/19 and performance will be maintained going forward.

M059/JAP Corporate Risk Management Arrangements in GMP

GMP provided details on the background of Corporate Risk Management Arrangements in GMP. Since the April 2019 meeting, the Force has implemented a number of workshops to look through all assurance statements to consider any risks that were flagged, and to define the Force's key strategic risk areas. Further research identified the need for all branches and districts to hold their own Risk Registers.

GMP advised the refreshed draft Strategic Risk Register is pending approval and has five key themes;

- workforce;
- change and finance;
- information technology and management;
- the nature of crime and demand; and,
- neighbourhood policing.

It was noted that each theme contains risks, whereby each risk has;

- a Chief Officer owner;
- an explanation of the cause;
- an explanation of the impact; and,
- a summary of the mitigation action being taken.

GMP defined a variety of risks contained within each theme.

GMP assured members that the new Risk Register consists of no material changes when compared with the old Risk Register, as the risks are very similar. A great amount of work and effort has gone into the new Risk Register across the Force, which has been the cause of the delay. It was noted that new Risk Register, which illustrates a much clearer and better articulation of the risks, will be brought to the April 2020 meeting.

M060/JAP GMP Anti-Fraud Policy Update

In December 2019, a meeting took place between Internal Audit and the Professional Standards Branch (PSB) at GMP. Members were advised that PSB are currently working with Internal Audit to update the Force's Anti-Fraud Policy documents so they are in line with similar GMCA policies. Internal Audit noted that the intention is for PSB to submit the policy documents in the April 2020 meeting following consultation.

M061/JAP Progress against the Internal Audit Plan 2018/20

Internal Audit provided an update on the progress of the delivery of the Audit Plan 2018/20, which reflected the changes agreed at the previous meeting in October. It was noted there has been a period of staff sickness which will affect delivery of the audit plan. Internal Audit confirmed they were working with GMP to understand how this can be achieved whilst still providing an appropriate programme of assurance. Any subsequent changes to the plan will be directed to the Chair before the next meeting.

GMP provided an overview of the challenges faced by GMP in relation to the issues identified in the Cyber Security Internal Audit Report. The Head of Information Services provided Members with an update on the broader context within which GMP are operating, and the various activities which are ongoing to improve and strengthen the current arrangements in relation to Cyber Security. The Head of Information Services assured members that given the limitations of older systems, and taking into account the ongoing work in relation to Cyber Security, the Force is confident they are performing well to reduce the risk in relation to Cyber Security.

Members were assured the Cyber Security audit report will go to the Force's Information Assurance Board (IAB), where progress against implementing the agreed actions will be independently monitored.

Internal Audit noted that going forward, the new Risk Register will be used to triangulate and assess the different risks and mitigating actions, whilst being cognisant of the risk tolerance level for each risk. This will be used to inform internal audit planning and individual reviews.

The Panel reiterated their position on the importance of maintaining an internal audit function that reflected the scale and complexity of GMP; and provided reassurance on internal control arrangements and value for money, including effectiveness and efficiency. This would be taken account of and reflected in preparing the 2020 Audit Plan.

M062/JAP Internal Audit Action Tracker Report

The Panel noted a detailed history of two previous Health and Safety internal audit reports and a discussion took place regarding the delayed timescale in reporting the progress for one outstanding action following the cessation of the previous Joint Audit Panel and the reporting of the action tracker to the current Joint Audit Panel.

It was acknowledged that updates on this outstanding action had been provided to the previous Panel in March 2018, as the June and July 2018 meetings focussed on the draft and final statement of accounts. The current Panel first met in December 2018; however, they did not receive the action tracker report until the second meeting in April 2019. Members have received subsequent updates on this action in July 2019 and again at the January 2020 meeting.

Internal Audit assured members that the action tracker report will be submitted to the Panel on a quarterly basis and that the format of the report and how the information is presented to Members will be enhanced to enable Members to assess and challenge the progress of outstanding actions.

Members discussed how the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) was overlooked by the Health and Safety Committee and was not satisfactorily monitored.

GMP assured members that the January 2020 RIDDOR Accident Reporting Internal Audit Report illustrates the Force is now complying with RIDDOR, although the Force are not currently meeting the timescales set out in RIDDOR. It was noted by Internal Audit that the manual processes around RIDDOR reporting increases the risk that the strict timescales set by RIDDOR may not be met. GMP advised a Project team has been set up to establish if a technical solution can be found to enable the Force to comply with RIDDOR timescales. Members agreed to monitor the progress of delivering a new solution.

M063/JAP External Audit Progress Report and Sector Update

External Audit provided an overview of the report. Members were assured that external audit is on track and there are no matters to bring to attention.

It was noted that members would benefit from a discussion on the impact of Article 1 (pg. 47) in the April 2020 meeting, regarding the new Code of Practice going forward.

GMCA GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 30 June 2020

Subject: Coronavirus (COVID-19) Interim Corporate Risk Register

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The role of the Audit Committee is to provide regular review over the GMCA governance, risk management and internal control arrangements.

This report supports the Audit Committee in discharging this responsibility by providing the latest update on the corporate risk register for June 2020.

RECOMMENDATIONS:

Audit Committee is requested to consider and comment on the updates to the risk register and the associated actions and assurances provided.

CONTACT OFFICERS:

Steve Wilson, Treasurer to GMCA,
Steve.wilson@greatermanchester-ca.gov.uk

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – see Appendix A

Legal Considerations – see Appendix A

Financial Consequences – see Appendix A

Financial Consequences – see Appendix A

Number of attachments included in the report: None

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

1.1 The Greater Manchester Combined Authority (GMCA) risk management framework and Corporate Risk Register "CRR" support the identification and management of key strategic risks to the achievement of organisational objectives and actions considered necessary to mitigate them.

1.2 As part of the Coronavirus (COVID-19) emergency incident management arrangements, an interim COVID-19 Corporate Risk Register has been established to identify and capture specific 'high level' risks arising from the pandemic and which directly impact on GMCA service activities and finances.

1.3 The purpose of the register is to identify the risks that have arisen specifically relating to the current national emergency, which may be different to those previously identified in the GMCA Corporate Risk Register. Management of these risks is essential in ensuring the safety and wellbeing of staff and the ongoing operation of activities to support Districts and the wider GM response.

1.4 GMCA Chief Executive's Management Team (CEMT) retains overall ownership and responsibility for the management of risks, actions and assurances being given. Oversight and Scrutiny will be provided by GMCA Audit Committee.

1.5 Going forwards, and moving into the "recovery phase" the risks on this COVID-19 risk register will be considered for inclusion in the GMCA CRR if they remain risks in the longer term.

1.6 Specific risk management arrangements and risk registers for GMP, TfGM and GMFRS will continue to be owned by the Chief Constable, Chief Executive TfGM and Chief Fire Officer respectively.

2 COVID-19 Incident Management Arrangements

GM Level

2.1 The command and control structures for managing the GM wide response was agreed by the GM Strategic Coordinating Group (SCG). The SCG and GM Covid19 Emergency Committee (chaired by the GM Mayor) have responsibility for managing the strategic coordination and emergency response.

2.2 Below this sits a number of Thematic Work Streams; Emergency Operation Cells and Sector Coordination groups which support the Multi agency command and control arrangements.

2.3 GMCA are working alongside colleagues in GMFRS, GMP, TfGM, GM Districts, Health and other Strategic Partner organisations to ensure there is adequate resource and communication over the measures being taken.

GMCA Roles and Responsibilities

2.4 **GM Mayor**: Chairs the Covid-19 Emergency Committee with responsibility for advocacy, escalation and assurance.

2.5 **GMCA Chief Executive**: Chairs the GM SCG alongside the Chief Constable. Also retains overall strategic responsibility for GMCA Business Continuity Management plans and the provision of statutory responsibilities and service delivery. The Chief Executive will also retain responsibility for ensuring risks affecting GMCA are identified and managed.

2.6 **Chief Executive Management Team (CEMT)**: will co-ordinate the overall response on behalf of GMCA and have the relevant authority to make decisions and commitment of resources.

2.7 **Senior Leadership Team (SLT)**: have responsibility for ensuring business critical operations and priorities are being regularly reviewed in line with Business Continuity Management policy and procedures with escalation of any significant risks and issues.

3 June 2020 Update

3.1 Internal Audit facilitated the development of the interim Covid19 CRR with the Senior Leadership Team and Chief Executive Management Team during April and May.

3.2 This process identified 23 corporate risks, which are of such significance they require close monitoring by SMT and CEMT. These are captured under a number of thematic risk headings to aid understanding, review and analysis. The risks are categorised in line with the three phases of recovery; Release of lockdown (0-2months); Living with Covid (0-12 months); Building back better (0-beyond 12months).

3.3 Monthly consideration of the Covid19 risks, key actions and assurances will take place with SLT and CEMT to ensure the register is updated to take into account the changing situation and latest Government guidance.

3.4 The procedures do allow for the escalation or de-escalation of risks between the Covid19 Risk Register and existing service risk assessment control measures being undertaken as part of business continuity response plans and business impact assessment updates.

3.5 The longer term intention is to incorporate Covid19 risks into the standard GMCA corporate risk register and quarterly risk management review processes.

3.6 An summary of the nature of the risks included in the COVID-19 Risk Register is provided in the table below.

4 Recommendations

4.1 Audit Committee is requested to consider and comment on the process for managing the changing risk environment.

Thematic Area	**Summary of the risks**
Workforce	• **Staff absence**: through Covid-19 and/or caring responsibilities • **Staff Wellbeing**: Mental and physical wellbeing: during continued lockdown and imposed working arrangements. • **Workload and Capacity**: to support response activities at each stage of lockdown and recovery • **Impact on operational activity**
Financial Planning and Resources	• **Financial implications of COVID-19** on cash flow, financial planning, budgeting and loss of income • **Fraud and Corruption**: Covid-19 Emergency measures being presently taken potentially give rise to additional fraud and corruption risks.
Governance, Legal and Internal Control Framework	• **Procurement and Contracting:** impact of COVID-19 on existing contracts and contract management arrangements to manage through lockdown and beyond • **Information Gov** • **ernance**
Technological	• **IS Equipment and services:** availability and resilience of IS equipment and services
Programme and Project Delivery	• **Delays in the delivery of key projects**
Commercial and contracts	• **Skills and Work Provider Payments**: to Education Providers, colleges, suppliers etc. are delayed or not made. • **Waste & Recycling**: risks associated with disruption to services • **Transport**: risk of delay to decision on bus reform due to market disruption
Supply Chain and Providers	• **Covid-19 Personal Protective Equipment (PPE)**: Supply and distribution

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GMCA GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 30 June 2020

Subject: Review of Effectiveness of Internal Audit

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

The GMCA conducts an annual review of the effectiveness of its system of internal audit as part of its governance assurance processes. This process is designed to provide assurance to the Audit Committee over the system of internal audit including the role, function and performance of the internal audit service.

This report sets out the assessment for 2019/20 and actions proposed to ensure ongoing effectiveness and quality of the GMCA Internal Audit service.

RECOMMENDATIONS:

The Audit Committee is requested to consider the review of effectiveness for 2019/20 and to endorse the Quality Assurance and Improvement Programme (QAIP) for 2020/21.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – N/A

Legal Considerations – N/A

Financial Consequences – Cost of GMCA Internal Audit Service

Financial Consequences – N/A

Number of attachments included in the report: 1 – Internal Audit Quality Assurance and Improvement Programme.

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	N/A	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

1.1 Internal Audit is one of the means by which the Greater Manchester Combined Authority ("GMCA") assesses the adequacy and effectiveness of its governance and risk management arrangements, ensuring that an effective internal control system is in place. It is a key source of independent assurance to management and those charged with governance and its work helps inform the Annual Governance Statement.

1.2 It is important that the effectiveness of the internal audit function is regularly assessed to ensure that the service is effective and fulfilling its remit, as defined in the Internal Audit Charter; is adding value to the Authority and complies with the Public Sector Internal Audit Standards (PSIAS).

1.3 This report provides the assessment of the effectiveness of the GMCA Internal Audit service for 2019/20 and sets out the plans for monitoring and measuring effectiveness of the service going forwards.

1.4 Effectiveness of the Greater Manchester Police (GMP) Internal Audit team is assessed and reported separately to the Joint Audit Panel (Police and Crime). For the purpose of this report, the assessment is in relation to internal audit services provided to GMCA (including GMFRS).

2 Assessment of Internal Audit Effectiveness for 2019/20

2.1 The following attributes have been considered when assessing effectiveness of the Internal Audit service for 2019/20:

- Structure and resourcing
- The extent of conformance with the PSIAS in producing quality work.
- Delivering audit work in the most appropriate areas on a prioritised (risk) basis.
- Audit Committee reporting
- Implementation of Internal Audit recommendations

2.2 The conclusion of the assessment is that the work undertaken by internal audit in 2019/20 has been effective insofar that it has focused on key areas of risk and has been undertaken in line with PSIAS. The level of resource for the team in the year has been insufficient to deliver the approved internal audit plan due to the length of time required to approve the team structure and recruit to posts. Changes to the plan to adjust for the lack of resources were approved in-year by the Audit Committee. However, going forwards, as all posts are now recruited to, the team will be able to deliver the amount of work planned. Reporting to the Audit Committee has been effective and the Audit Committee were instrumental in gaining approval for one of the auditor posts.

2.3 This conclusion has been derived from the following assessment:

2.3.1 Internal Audit Structure and Resourcing

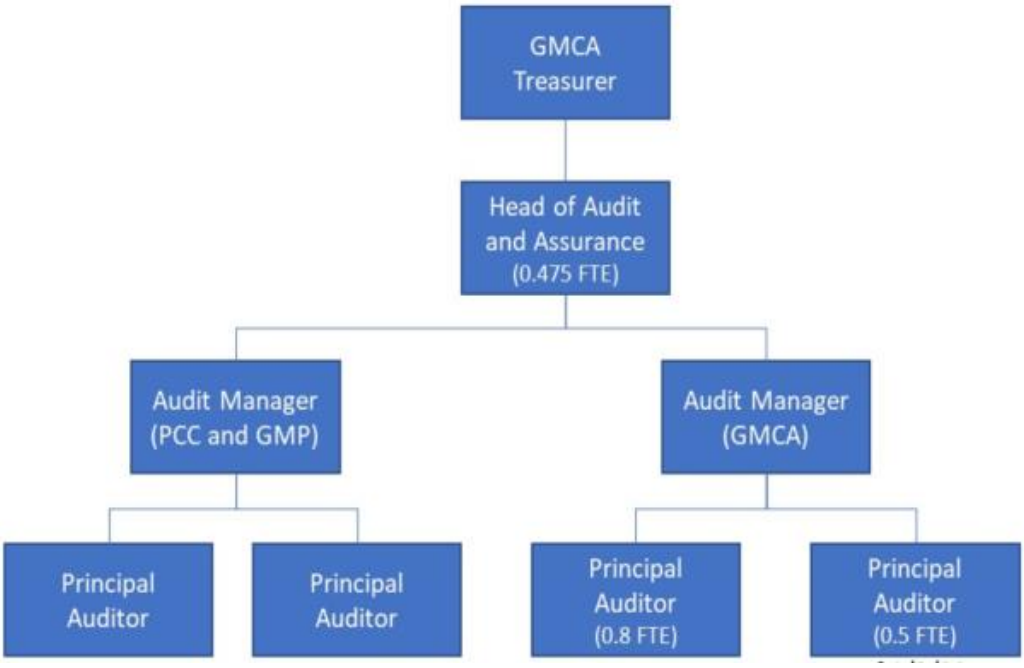
Prior to 2019/20, the GMCA Internal Audit service had been provided by Manchester City Council (MCC) on an outsource basis. An in-house team was (and continues to be) in place to deliver Greater Manchester Police (GMP) Chief Constable’s Internal Audit service.

A decision was made to bring the GMCA service in-house and a new Head of Audit and Assurance was recruited and commenced employment in April 2019. The Head of Audit and Assurance is also the Head of Internal Audit at Transport for Greater Manchester (TfGM).

At the time there were no other Internal Audit resources in place to deliver the GMCA internal audit plan, so MCC continued to provide support to GMCA to deliver internal audit services in Q1 of 2019/20.

The Head of Audit and Assurance presented a Service Improvement Plan to GMCA in order to establish a team to deliver the GMCA Internal Audit service. Approval was granted for an additional 2.5 FTE resources. These posts were appointed in 2019/20, with the Internal Audit Manager commencing employment in November 2019 and the two Principal Auditors in March 2020.

The Structure of the Internal Audit service is shown below:



Whilst the Internal Audit service is now at full capacity, this has not been the case for much of 2019/20 so the volume of internal audit work delivered has been less than initially planned. The Audit Committee have been kept regularly appraised of the resourcing levels within the team and were instrumental in getting approval for the second Principal Auditor role to be recruited within the year.

2.3.2 The extent of conformance with the PSIAS in producing quality work

Work undertaken by MCC in Q1 of 2019/20 was subject to MCC's quality assurance procedures. This includes:

- internal quality assurance processes which measure conformance to PSIAS
- periodic external assessments of the Internal Audit function which was last carried out in 2017 and the actions resulting from that incorporated into a development plan which is monitored and reported to MCC Audit Committee on a regular basis.

Since bringing the GMCA team in-house as internal audit work has been undertaken by the Internal Audit Manager (previously a member of the MCC team) in line with PSIAS standards. A new Quality Assurance Improvement Programme (QAIP) has been developed for 2020/21 which sets out the process for measuring and monitoring compliance with PSIAS going forwards. See Section 3 for more information on the QAIP.

2.3.3 Delivering audit work in the most appropriate areas on a prioritised (risk) basis.

The internal audit plan for 2019/20 took into consideration the change in arrangements from MCC to the in-house team and did not plan for audit fieldwork to be undertaken in Q2 to allow for establishment of the GMCA team. However, due to the length of time it took to recruit to the posts the volume of planned audit work for the second half of the year could not be delivered.

Internal Audit met with Heads of Service in order to understand their priorities, high level risks and any specific areas for audit activity for the year. Based on these discussions, the 2019/20 plan was reprioritised in order to focus the limited internal audit resource at areas of highest risk and/or focus for GMCA. Whilst the volume of work delivered was less than planned, the work that was delivered did focus on key risk areas where other sources of assurance were not already in place.

2.3.4 Audit Committee reporting

Internal Audit have provided progress updates to every Audit Committee meeting. The reports include updates on the team structure and resources, work undertaken during the period, a summary of the findings from reports issued and details of significant changes to the audit plan.

2.3.5 Implementation of Internal Audit recommendations

Progress with the implementation of internal audit recommendations has historically been reported to the Audit Committee by the Management. As at June 2020, management reported that 72% of audit actions were either implemented or partially implemented.

From Q2 2020/21, Internal Audit are going to take over the process to monitor the implementation of agreed audit actions and will include as part of their annual programme activities to validate the implementation status of all actions arising from high risk findings and a sample of those from lower risk findings.

Proposed KPIs for audit action implementation suggest an on-time implementation rate of 85%.

3 Looking ahead – Quality Assurance and Improvement Programme (QAIP)

3.1 The Head of Audit and Assurance has developed a QAIP for implementation in the coming financial year 2020/21. This is Included in Appendix 1 to this report. **The Audit Committee are requested to review and endorse the QAIP.**

3.2 A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

3.3 The proposed QAIP is designed to provide reasonable assurance to GMCA's stakeholders that Internal Audit:

- Performs its work in line with the Internal Audit Charter (approved annually by the Audit Committee). The charter incorporates the definition of internal auditing as set out is PSIAS.
- Operates in an effective and efficient manner
- Is perceived by stakeholders as adding value to GMCA

3.4 Going forwards, the results of the QAIP and progress against any improvement plans will be reported in the Internal Audit Annual Report.

GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 30 June 2020

Subject: Annual report on the outcome of whistleblowing referrals

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a summary of the outcomes of whistleblowing referrals received in 2019/20, as required under Section G of the GMCA Constitution "Complaints and Whistleblowing".

RECOMMENDATIONS:

That the Committee notes the report

CONTACT OFFICERS:

Steve Wilson, Treasurer – GMCA
steve.wilson@greatermanchester-ca.gov.uk

Sarah Horseman, Head of Audit and Assurance - GMCA
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – N/A

Legal Considerations – N/A

Financial Consequences – N/A

Financial Consequences – N/A

Number of attachments included in the report: N/A

BACKGROUND PAPERS: N/A

<table>
<tr><td colspan="2">TRACKING/PROCESS</td><td colspan="2"></td></tr>
<tr><td colspan="3">Does this report relate to a major strategic decision, as set out in the GMCA Constitution</td><td>No</td></tr>
<tr><td colspan="4">EXEMPTION FROM CALL IN</td></tr>
<tr><td colspan="2">Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?</td><td colspan="2">N/A</td></tr>
<tr><td>TfGMC</td><td colspan="2">Overview & Scrutiny Committee</td><td rowspan="2"></td></tr>
<tr><td>N/A</td><td colspan="2">N/A</td></tr>
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1. Introduction

1.1. The Greater Manchester Combined Authority is committed to the highest possible standards of openness, probity and accountability. The GMCA Whistleblowing Policy is a vital part of the GMCA's governance arrangements and is designed to allow employees or others, with serious concerns about any aspect of the GMCA's work or that of its partners, to come forward and voice those concerns without fear of reprisal.

1.2. In the event that an individual becomes aware of activities which they believe to be illegal, improper, unethical or inconsistent with this Constitution, individuals are encouraged to report their concerns in line with procedures set out in the Whistleblowing policy.

1.3. Whistleblowing concerns related to the GMCA functions, including Greater Manchester Fire and Rescue Service, are referred to the Head of Audit and Assurance.

1.4. Section G of the GMCA Constitution "Complaints and Whistleblowing" states that the GMCA Standards Committee are responsible for reviewing the Whistleblowing Policies and approving any necessary changes. The GMCA Treasurer and Chief Executive Officer are responsible for monitoring the effectiveness of the Whistleblowing Policy and process with periodic reports provided to Audit Committee on the outcome of whistleblowing referrals.

1.5. This report provides the Audit Committee with a summary of the outcomes of whistleblowing referrals received by the Head of Audit and Assurance in the financial year 2019/20.

2. Confidentiality

2.1. To protect the confidentiality of whistleblowers and other parties involved, no information is included here that would enable a worker who has made the disclosure, or the place or person about whom a disclosure has been made to be identified.

3. Assessment of disclosures and types of actions taken

3.1. The Whistleblowing Policy should not to be used where other more appropriate internal reporting procedures are available. There are existing procedures which enable employees to lodge a grievance relating to their conditions of employment, raise matters of harassment or to make a general complaint, which by contrast, generally have no additional public interest dimension.

3.2. The Whistleblowing Policy covers concerns that fall outside the scope of those existing internal procedures. However, in the event that allegations made through the above procedures raise serious concerns over wrongdoing, the GMCA will investigate under the whistleblowing process.

3.3. Upon receipt of a disclosure, the Head of Audit and Assurance (or other nominated recipient if the disclosure relates to Internal Audit) first confirms the disclosure does fall outside of other internal or external reporting procedures. Once confirmed, the disclosure will then be investigated in line with the Whistleblowing Policy. If the disclosure is does not fall within the Whistleblowing Policy it will be passed on to the relevant Officer/organisation to manage it through the appropriate mechanism.

3.4. Taking this into consideration, the following outcomes of disclosures may be observed

Action Type	**Description**
Referred to appropriate internal procedure	This applies to disclosures which fall under one of the other GMCA policies, such as grievances, misconduct, disciplinary matters or complaints of bullying and harassment.
Referred to other party	This applies to disclosures which were received but were for parties/organisations other than GMCA (including GMFRS and GM LEP) and were therefore referred to the relevant organisation/Authority.
Closed with no action taken	This applies to disclosures which have been identified as a qualifying whistleblowing disclosures but initial assessment and fact finding could not establish sufficient detail or credibility to progress.
Investigation completed – no action taken	This applies to disclosures which have been identified as a qualifying whistleblowing disclosures but where investigations have found no evidence of wrongdoing and no areas for process and control improvement were identified.
Investigation completed – action taken	This applies to disclosures which have been identified as a qualifying whistleblowing disclosures and where investigations have upheld the allegations and appropriate actions have been taken against individuals concerned.
Investigation completed – organisational actions	This applies to disclosures which have been identified as a qualifying whistleblowing disclosures and where investigations have found areas where improvements in processes and controls are necessary. Complaints of wrongdoing by individuals were not however upheld.
Under review	This applies to disclosures which have been identified as a qualifying whistleblowing disclosures but where investigations have not yet been completed.

4. Annual report of whistleblowing outcomes 2019/20

4.1. From 1 April 2019 to 31 March 2020 four whistleblowing disclosures were made to the Head of Audit and Assurance

4.2. Actions taken in response to disclosures

Action Type	**Number of referrals**
Referred to appropriate internal procedure	2
Referred to other party	1
Closed with no action taken	-
Investigation completed – no action taken	-
Investigation completed – action taken	-
Investigation completed – organisational actions	1
Under review	-
Total	**4**

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GMCA Audit Committee

Date: 30 June 2020

Subject: Audit Action Follow up

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

This report advises Audit Committee of the progress to date in implementing the agreed actions from internal audit assignments. It also details the proposed new process for follow up of recommendations.

RECOMMENDATIONS:

Members are asked to note the contents of this report and to comment on the proposed new mechanism for monitoring and reporting the implementation of audit actions.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – see Appendix A

Legal Considerations – see Appendix A

Financial Consequences – see Appendix A

Financial Consequences – see Appendix A

Number of attachments included in the report: None

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	No	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Latest position

The GMCA Internal Audit Plan comprises a range of reviews agreed by Senior Management Team and Audit Committee. Each audit assignment concludes with the issue of an audit report and a number of agreed actions for implementation. Each action has a named responsible person and an agreed implementation date.

Management reviews outstanding recommendations regularly. An Action Tracker is maintained to capture updates and is shared with Internal Audit.

The latest position as reported by management is as follows:

Audit Title	Date Issued	Overall assurance	Recommendations		
			No.	Actions Due	Overdue
Purchase Cards	11.01.19	Significant	9	9	0
Procurement waivers	23.07.19	Significant	3	0	0
Employee expenses	31.7.19	Moderate	5	0	0
ICT Strategy, Governance and programme management	3.10.19	Significant	6	1	0
Adult Education Budget – Payment Controls	22.4.20	Substantial	1	0	0
Car User Mileage	10.6.20	Moderate	6	0	0

Grant related audits

Grant	Recommendations		
	Number	Actions Due	Overdue
Culture and Social Impact Fund	4	4	4
Cycle City Ambition Grant	10	10	10

2 Changes in the action tracking process

From Q2 2020/21 Internal Audit will assume responsibility for maintaining and monitoring the action tracking activity. Whilst it is management's responsibility to ensure audit actions are implemented, Internal Audit are ideally placed to undertake the monitoring and reporting of action implementation.

It is also important that management assertions over the implementation of audit actions is validated. Now that internal audit has a fully resourced team, a programme of follow up activity will be included in the Internal Audit Plan each year. Internal audit will validate the implementation of actions arising from all Critical and High risk audit findings and a sample of actions arising from Medium and Low risk rated findings. Any actions that are outstanding will be followed up to obtain revised implementation dates and the number of these "extended" actions will also be reported.

Improved granularity will be introduced in reporting of the implementation of audit actions that will enable the Audit Committee to see:

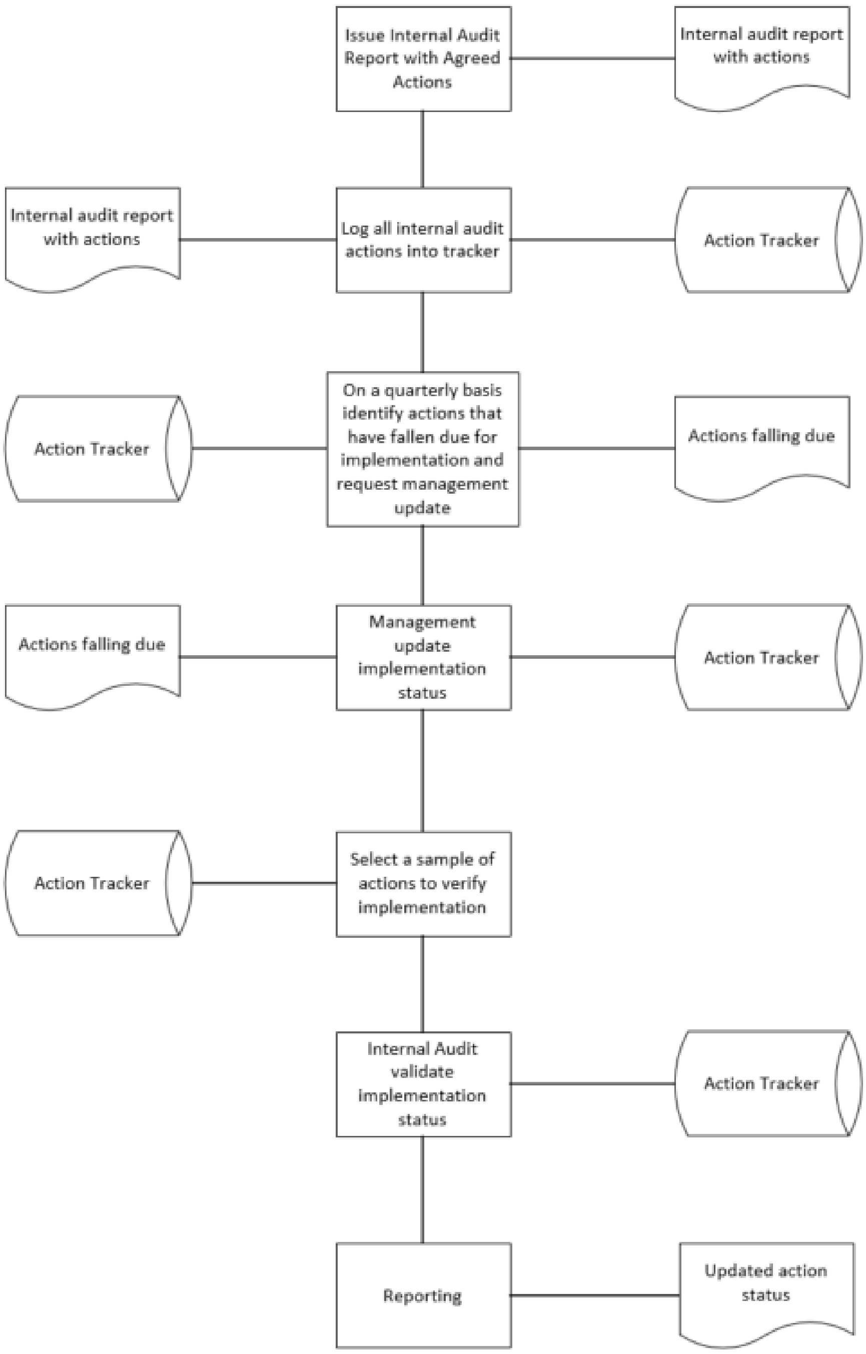
a) Implementation rate for each audit. Similar to the information provided now, for each audit there will be a graph of the implementation status of audit actions.

b) Overall audit action implementation rate – a KPI of 85% implementation is proposed within the Internal Audit QAIP. Performance of actual action implementation will be reported against this KPI.

c) Audit action implementation rate by action priority. Reporting will show the implementation rate of Critical, High, Medium and Low priority actions to ensure priority is being given to those relating to higher risk findings.

An overview of the proposed action tracking process is shown overleaf:

Internal Audit action tracking process overview



Internal Audit maintain a central tracker of all actions agreed as part of each audit. This records the action, risk rating, implementation date and action owner.

On a quarterly basis, Internal Audit will identify all actions that have fallen due in the quarter.

Internal Audit facilitate an update for all the actions falling due, requesting the action owners detail the actions taken and the current status of each action (implemented, in progress, not yet implemented or superseded).

Internal Audit will select a sample of actions to validate the implementation status. All critical and high risk actions will be validated alongside a sample of medium/low risk rated actions.

On a quarterly basis internal Audit will request and review evidence to support implementation of audit actions to validate the implementation status provided by management.

Internal Audit report on the implementation of audit actions on a quarterly basis to management and Audit Committee.

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GMCA GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 30 June 2020

Subject: Head of Internal Audit Annual Opinion 2019/20

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The Internal Audit team delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Greater Manchester Combined Authority (GMCA). In accordance with Public Sector Internal Audit Standard 2450 this work is required to culminate in "an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."

This report provides Members of the Audit Committee with the Head of Internal Audit Opinion on the effectiveness of the framework of governance, risk management and internal control at Greater Manchester Combined Authority (GMCA) for the year ended 31 March 2020.

RECOMMENDATIONS:

Members are requested to consider and comment on the Head of Internal Audit Opinion 2019/20

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance

Risk Management – see paragraph 4.2

Legal Considerations – N/A

Financial Consequences – Revenue – N/A

Financial Consequences – Capital – N/A

Number of attachments included in the report: N/A

BACKGROUND PAPERS:

Papers previously presented to Audit Committee

- Internal Audit Plan 2019/20
- Internal Audit progress reports
- GMCA Corporate Risk Register

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	N/A	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

Head of Internal Audit Opinion 2019/20

1. Introduction

The Head of Internal Audit is obliged, under the Public Sector Internal Audit Standards (PSIAS), to provide an annual report summarising the work undertaken by internal audit during the financial year and to provide an overall opinion of the adequacy and effectiveness of the organisation's framework of governance, risk management and internal control, derived from this work.

2. Scope

The Head of Internal Audit opinion is substantially derived from the results of the risk-based audits contained within the Internal Audit Plan for 2019/20. In addition the following are also considered:

- Grant Assurance work undertaken by Internal Audit;
- The implementation of previous audit actions;
- The results of work undertaken by other external sources;
- The quality and performance of the internal audit service and level of compliance with Public Sector Internal Audit Standards (PSIAS)

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to GMCA. The opinion is one component that is taken into consideration within the Annual Governance Statement.

3. Head of Internal Audit Opinion

3.1. Opinion

Based on the work undertaken by Internal Audit in respect of 2019/20 the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of GMCA's framework of governance, risk management and control is:

Opinion	Description	Rationale
Limited (by volume)	The work undertaken, combined with other sources of assurance, considered the arrangements for governance, risk management and control	Audit work undertaken was significantly less than anticipated in the agreed Internal Audit Plan. This was due to limited internal audit resource being available during the year whilst the in-house internal audit team was being established. However, assurance can be taken from the internal audit work that was performed, of which:

	provided a limited level of assurance.	• no individual assignment reports were rated as "No Assurance" • no critical risk findings were identified • work undertaken covered a range of the key risks within the organisation • any high risk rated findings were isolated to specific activities and were/are scheduled to be implemented in line with agreed timescales Assurance can also be taken from other external and internal sources of assurance, including HMICFRS, ICO and GMFRS second line assurance activities.

Details of the possible audit opinions is provided in Appendix A.

No issues which have been highlighted during the year which have particular relevance to the preparation of the Annual Governance Statement. There have been no instances of non-conformance with PSIAS.

3.2. Risk Management

There is a GMCA Governance and Risk Group with responsibility for quarterly review and update of the GMCA corporate risk register (CRR). There has been active engagement from key officers from senior management and leadership representing the breadth of GMCA activities.

The CRR contains both GMCA and GM Mayoral risks. GMP, TfGM and GMFRS risk management frameworks and risk registers continued to be owned by the Chief Constable, Chief Executive of TfGM and Chief Fire Officer respectively.

The Governance and Risk Group operated effectively during 2019/20 with quarterly updates of the risk register being provided to Audit Committee, with a full review of the CRR being undertaken by the Audit Committee in January 2020.

3.3. Corporate Governance

GMCA has in place a Code of Corporate Governance as part of its Constitution.

Internal audits consider not only on the control environment but also on governance and risk management arrangements where appropriate. No audit findings relating to governance were rated "major" or "critical" in 2019/20. Where issues are identified, Internal Audit will work with services to improve and develop processes that allow governance and risk management to further help achieve the overall objectives of the service.

The audit of ICT Strategy, Governance and Programme Management identified a number of areas of good practice as well as some areas for improvement, which were acknowledged at the time to be reflective of the relative immaturity of the organisation. Since that audit, progress has been made in implementing the actions agreed to address the findings.

Looking ahead, in addition to considerations in each audit of governance, Internal Audit will implement a programme of reviews within future plans, focusing specifically on corporate governance arrangements, considering each of the elements of the CIPFA Good Governance in the Public Sector framework.

3.4. Internal Control

From the audit work undertaken in the year there were no issues identified that indicated systemic non-adherence to internal controls in place. The majority of the audit findings related to control design as opposed to the operation of controls.

Symptomatic of the fact that the GMCA as an organisation is still relatively new and is the product of the amalgamation of a number of previous organisations/bodies (notably GMCA and GMFRS) there were audit findings identified in relation to the availability of single, clearly defined, organisation-wide policies for things such as expenses and car mileage claims as opposed to historic GMFRS policies for example. The audits found that controls were in place over these activities but they were based on either legacy processes or good practice and custom. Internal audit will continue to monitor progress with the development and implementation of GMCA-wide policies and procedures.

3.5. Impact of Covid-19 on the Head of Internal Audit Opinion

This opinion is based predominantly on work undertaken before the COVID-19 pandemic. The introduction of lockdown measures was late March 2020 which was at the end of the 2019/20 financial year. There was therefore limited impact on the 2019/20 internal audit plan.

There will be considerable impact on the plan for 2020/21, Internal Audit is working with management and the Audit Committee to manage that given the changes in risk and working arrangements.

4. Basis of the Opinion

4.1. Internal Audit work performed

The Internal Audit Plan for 2019/20 was presented to and approved by the Audit Committee in April 2019. The plan contained 512 days of audit work, taking into consideration the move from an outsourced Internal Audit function, provided by Manchester City Council, to an in-house Internal Audit team.

A new Head of Audit and Assurance was appointed in April 2019 who then was required to establish and recruit the Internal Audit team. The time required to establish and recruit the team meant only 222 internal audit days being delivered (compared to 256 in 2018/19). **Whilst the audit work performed did not identify any significant issues in the areas of governance, risk management and control, this shortfall in days has impacted the ability to provide anything other than a Limited opinion.**

A summary of the internal audit reports issued in 2019/20 is provided here:

Audit	Assurance Level
Procurement Waiver Exemptions	Moderate
Employee Expenses	Moderate
ICT Strategy, Governance and Programme Management	Moderate
Adult Education Budget – Payment Controls	Substantial[1]
Car User and Mileage Expenses	Moderate
GM Troubled Families Programme	Positive
Housing Investment Loan Fund (HILF)	Reasonable[1 2]
GM Waste and Recycling Contract – Contract Governance	Reasonable[1 2]

[1]A new audit opinion rating mechanism is being introduced in 2020/21. The AEB Payment Controls, HILF and Waste audits also adopted this rating mechanism. Descriptions of the old and new audit engagement opinion ratings are included in Appendix B.

[2]Report is currently in draft stage.

Analysis of 2019/20 audit findings and audit opinions

A similar number of audits were undertaken in 2019/20 as had been undertaken in 2018/19. A comparison of the two years audit results has been undertaken and shows the following:

a) Fewer audit findings were raised in 2019/20. A total of 26 audit findings were raised, compared to 32 in 2018/19.
b) A similar pattern can be seen in the distribution of finding ratings across the two years, although 2019/20 showed a less pronounced volume of “Significant” findings. See Fig 1.

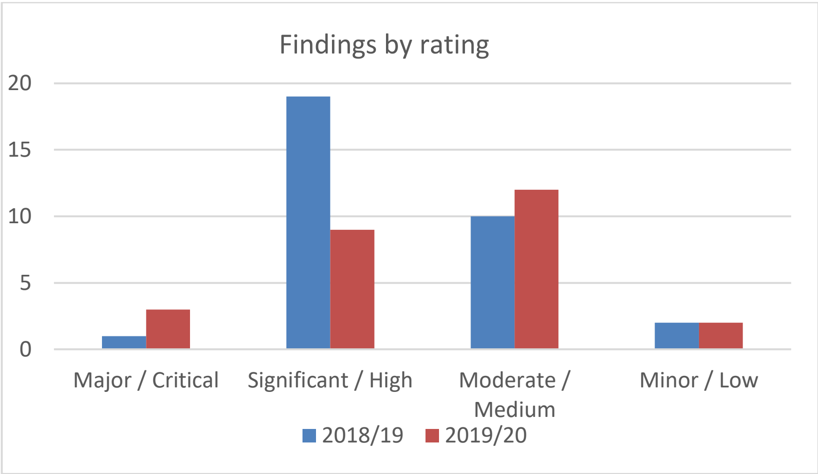

Fig 1. Analysis of audit findings by rating

c) With regards to audit opinions for each year, aligning as best as possible the old and new opinion ratings, across the two years the distribution of report opinion ratings showed a greater proportion of "Substantial" audit opinions in 2019/20, and no Limited Assurance opinions being issued in 2019/20. See Fig 2.

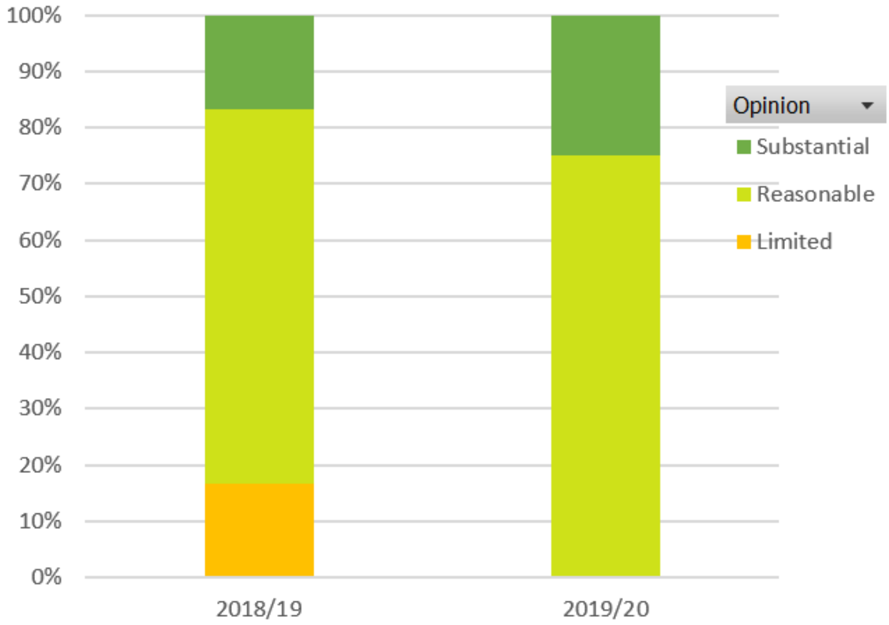

Fig 2. Analysis of audit opinions issued

4.2. Grant certification work

A Summary of the grant certification work undertaken in 2019/20 is provided below:

Grant	Amount certified	Assurance level
Business Energy and Industrial Strategy (BEIS) Grant Certification	£513k	Positive
National Productivity Investment Fund (NPIF) 2018/19 Grant Certification	£3.3m	Positive
GM Energy Market Mandatory Grant Certification	£31k	Positive
Local Growth Fund 2018/19 Grant Certification*	£78m	Positive

*Certification not yet issued but work has been undertaken and is being finalised. Assurance levels will be reported as indicated here.

4.3. Implementation of audit actions

As part of PSIAS, we are required to consider the appropriateness of the organisation's response to the implementation of audit recommendations. In 2019/20 the responsibility for reporting on the status of implemented or outstanding actions is a management responsibility with quarterly reports provided to Audit Committee.

At the time of writing, management has reported that 72% of audit recommendations are either implemented or partially implemented.

Moving into 2020/21 Internal Audit will assume more responsibility for monitoring and validating progress with agreed actions. Target implementation rates for audit actions will be set and performance regularly reported to SLT and Audit Committee. Particular attention will be paid to actions agreed to address critical and high risk rated audit findings.

4.4. Effectiveness of Internal Audit during the period

An assessment of the effectiveness of the Internal Audit Function has been undertaken by the Head of Audit and Assurance. That assessment concluded that whilst the extent of Internal Audit work has been limited in 2019/20 due to the establishment of the team, **the work that was performed was in conformance with PSIAS.**

A Quality Assurance and Improvement Programme has been implemented within the Internal Audit Team for 2020/21 which will assist in the monitoring and evaluation of the effectiveness of the team moving forwards

4.5. Other Sources of Assurance

4.5.1. Information Commissioner's Office (ICO)

With the support of the Association of Police and Crime Commissioners (APCC), the ICO Assurance department has undertaken a project to gain a more in depth understanding of working practices and data protection concerns within PCCs. GMCA took part in this project. The focus was mainly on the data processing undertaken by the PCC part of the GMCA but the recommendations in the report could be applied where appropriate, across the whole of the organisation. The review considered:

- Information Governance & Accountability – How organisations are able to demonstrate their responsibility and compliance with the GDPR/DPA18 principles
- Data Sharing - How routine and one off disclosures to other organisations are managed
- Security – How electronic and manual personal data is kept secure
- Records management – How records containing personal data are processed including their creation, maintenance, and eventual destruction
- Requests for personal data – How individuals' requests for copies of their personal data are handled

Some areas of good practice were noted in the report as well as a number of recommendations for improvement. Given the Head of Internal Audit's role as a member of the Information Governance Board it is possible to report progress has been made in a number of these recommendations, whilst it is acknowledged that further activities need to take place. This report does however provide some independent assurance over the steps taken to minimise data protection risks.

4.5.2. GMFRS - HMICFRS Inspections

Under section 28B of the Fire and Rescue Services Act 2004, Her Majesty's Chief Inspector of Fire & Rescue Services (HMICFRS) reports on the state of the fire and rescue sector, annually. The FRS inspections principally focus on the service provided to the public. They assess how well FRSs prevent, protect against and respond to fires and other emergencies, and how well they look after the people who work for the service.

GMFRS was last inspected by HMICFRS in Tranche 2 of the 2018/19 inspection programme with the final inspection report received in June 2019. Overall the Service was graded as **'Requires Improvement**' against the, Effectiveness Efficiency and People Pillars, but graded as **'Good'** at *Understanding the risk of fire and other emergencies and responding to fires and other emergencies, and Making the fire and rescue service affordable now and in the future.*

The report highlighted several areas for improvement, with recommendations, where the Service should take actions to address. The report also identified 19 'Areas for Improvement', two 'Causes of Concern' and four 'Recommendations'.

An external action plan to address the four recommendations was developed and is updated on a regular basis and published on the GMFRS website on the 'About Us' page. A further internal action plan was developed to address the Areas for Improvement and Causes of Concern. This is monitored and progress reported by the Operational Assurance Team.

Internal Audit obtained the latest version of the action plans to assess progress made in addressing the findings of the inspection. In regards to the four Recommendations in the external action plan, progress had been made against all of the actions to December 2019. Progress had also been made in the activities within the internal action plan, with 67% of the 124 actions either having been completed or in progress as at April 2020.

The pandemic has, however, slowed progress on implementing actions and in the last quarter of the year GMFRS has focussed on activities around responding to the pandemic to ensure service delivery was maintained. This has placed on hold some of the business as usual activity including HMICFRS Improvement Action Plans. However, the recovery strategy will incorporate resuming the plans and throughout the period has maintained contact with HMICFRS Service Liaison (SLL) and is actively working on an engagement plan to ensure continued communication with the SLL throughout the period. Internal Audit will continue to monitor implementation of these actions.

4.5.3. GMFRS - Operational Assurance Activity

Greater Manchester Fire and Rescue Service (GMFRS) maintain an Operational Assurance (OA) team to undertake active and reactive monitoring across a range of operationally focused activities. The OA Team are supported by an extended team of Area based Officers to deliver a wide range of operational assurance activities.

The OA Team adopt a 'risk based' approach for providing operational assurance and progressing the resultant outcomes, in order to assure stakeholders that:

a) The Service has a safe, well-trained and competent workforce capable of meeting the demands placed upon them

b) The Emergency Response element of the Service is effectively working to achieve the strategic purpose and aims of the Integrated Risk Management Plan

c) A continuous improvement culture is supported through operational learnings

This "second line" assurance is a valuable source of assurance for GMFRS over operational activities. The 2019/20 annual outturn report was obtained and reviewed by Internal Audit. It details the scope and results of the OA work undertaken during the year and provides another source of assurance.

Internal Audit are working with the OA team to develop a longer term process to document and record the assurance provided across the "lines of defence" with OA work being a key element of that assurance map.

Appendix 1 – Annual Opinion Types

The table below sets out the four types of annual opinion that the Head of Internal Audit considers, along with an indication of the characteristics for each type of opinion. The Head of Internal Audit will apply judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Opinion	**Description**	**Indicators**
Substantial	The controls tested are being consistently applied. There is a sound system of internal control designed to achieve the system objectives.	• No individual assignment reports were rated as “No Assurance” • No critical or major findings were identified • A limited number of moderate and minor rated findings were identified within the audit work undertaken. • Management demonstrate good progress in the implementation of previous audit actions
Moderate	There is evidence that the level of noncompliance with some of the controls may put some of the system objectives at risk. While there is a basically sound system of internal control, there are weaknesses, which put some of the system objectives at risk.	• The number of internal audit reports rated as “Limited Assurance” is small in comparison to those rated as “Moderate”, “Positive” or “Full” Assurance • No critical risk rated findings were identified in the audit work undertaken • Any major risk rated findings were isolated to specific activities and were implemented in line with agreed timescales • Moderate risk rated findings do not indicate a systemic or pervasive weakness in governance, risk management or internal control • Management demonstrate reasonable progress in the implementation of previous audit actions.
Limited	a) <u>Limited by volume</u>	• No individual assignment reports were rated as “No Assurance” • No critical risk findings were identified

	Internal Audit undertook a limited number of reviews. The work undertaken combined with other sources of assurance considered the arrangements for governance, risk management and control over a number of key corporate risks.	• Work undertaken covered a range of the key risks within the organisation • Any major or significant risk rated findings were isolated to specific activities and were implemented in line with agreed timescales
	b) Limited by results Weaknesses in the system of internal controls are such as to put the system objectives at risk and/or The level of non-compliance with controls puts the systems objectives at risk.	• The number of internal audit reports rated as "Limited" or "No Assurance" outweighs those rated as "Moderate", "Positive" or "Full". • Critical and Major Risk findings were identified in the audit work undertaken • No more than two critical risk findings were identified and they were in relation to specific activities as opposed to indicating systemic failures and were rectified quickly. • Management do not demonstrate good performance in implementing audit actions.
No Assurance	The control environment is generally weak, leaving the system open to significant error or abuse and/or Significant non-compliance with basic controls leaves the system open to error or abuse.	• Audit reports are generally rated as Limited or No assurance. • Findings rated Critical, Major, Significant outweigh those rated as Moderate or Minor. • Audit findings indicate systemic non-adherence to control procedures, indicating a poor control environment. • Audit actions are consistently not implemented in line with agreed timescales.

Appendix B

Below are the assurance levels and finding ratings used for the majority of the 2019/20 internal audit work. They are historically based on the Manchester City Council Internal Audit rating mechanism given MCC provided internal audit services to Q2 2019/20.

Level of assurance	Description
Full ●	***Full assurance*** – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Positive ●	***Positive assurance*** – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system's overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment.
Moderate ●	***Moderate assurance*** – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
Limited ●	***Limited assurance*** – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No ●	***No assurance*** – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Below are the assurance levels that will be used for the 2020/21 internal audit work. These were used for the AEB, Waste and HILF reports in 2019/20. These opinion ratings have been defined for the GMCA Internal Audit team moving forwards and are consistent with the recommended definitions for engagement opinions published by CIPFA in April 2020.

	DESCRIPTION	DESCRIPTION
	SUBSTANTIAL ASSURANCE	A sound system of internal control was found to be in place. Controls are designed effectively and our testing found that they operate consistently. A small number of minor audit findings were noted where opportunities for improvement exist. There was no evidence of systemic control failures and no high or critical risk findings noted.
	REASONABLE ASSURANCE	A small number of medium or low risk findings were identified. This indicates that generally controls are in place and are operating but there are areas for improvement in terms of design and/or consistent execution of controls.
	LIMITED ASSURANCE	Significant improvements are required in the control environment. A number of medium and/or high risk exceptions were noted during the audit that need to be addressed. There is a direct risk that organisational objectives will not be achieved.
	NO ASSURANCE	The system of internal control is ineffective or is absent. This is as a result of poor design, absence of controls or systemic circumvention of controls. The criticality of individual findings or the cumulative impact of a number of findings noted during the audit indicate an immediate risk that organisational objectives will not be met and/or an immediate risk to the organisation’s ability to adhere to relevant laws and regulations.

GMCA Audit Committee

Date: 30 June 2020

Subject: Emergent Internal Audit Plan

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The purpose of this report is to share with Members of the Audit Committee the emergent three-year internal audit plan and the operational internal audit plan for 2020/21.

RECOMMENDATIONS:

That the Committee reviews the emergent internal audit plan and provides direction as to any areas of focus for the annual internal audit plan for 2020/21.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – N/A

Legal Considerations – N/A

Financial Consequences – N/A

Financial Consequences – N/A

Number of attachments included in the report: N/A

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	N/A	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1. Introduction

1.1. In early 2020 Internal Audit commenced a risk-based planning process for the Internal Audit services to be provided to GMCA for the year 2020/21 and beyond. Good progress was being made in this until the unforeseen changes in working arrangements arising from the Covid-19 pandemic. As a result of this the planning process was paused in order to allow GMCA resources to focus on business critical activities.

1.2. In Quarter 1 of 2020/21 it became apparent that because of COVID-19 the risk environment that the GMCA faced had significantly changed. New risks were emerging and existing risks were changing. Internal Audit worked with Senior Management and Leadership to develop a Covid-19 GMCA Corporate Risk Register in order to identify and manage as best as possible the new risk environment.

1.3. This report provides the Committee with the current proposed internal audit plan for 2020/21. Changes to the plan will be reported to each Audit Committee meeting during the year. Where necessary if fundamental changes are required before the next Audit Committee meeting, approval will be sought from the Audit Committee Chair.

2. Planning Approach

2.1. An overview of the audit planning approach is shown below. The risk assessment criteria are provided in Appendix A.

1	Understand Strategic Objectives and Risks	•Understand the operating environment, strategic objectives and priorities and potential future activities •Understand GMCA's strategic risks as well as key operational risks
2	Identify the Audit Universe	•Identify the auditable units, these can be functions, processes, geographies or organisational structures.
3	Assess risks	•Assess the impact and likelihood of risks occurring within each auditable unit •Using cumulative knowledge and audit evidence, assess the effectiveness of the control environment for each auditable unit
4	Determine audit frequency	•Based on the total risk score, determine the frequency that each auditable unit should be audited
5	Develop three year strategic IA plan	•Based on the calculated audit frequency, determine a strategic internal audit plan for the next three years
6	Develop annual plan for forthcoming year	•Consult with senior management and other stakeholders to identify audits for the forthcoming year that will address key risks •Determine whether internal audit resources are sufficient to fulfil the audit requirements – if not, flex the audit frequency calculation to match audit resources. Make it clear to stakeholders that the approach has been flexed.

2.2. In line with the planning approach shown above, in early 2020 Internal Audit undertook planning activities and developed a draft three-year internal audit strategic plan as well as details of a number of audits for prioritsation in the 2020/21 plan. The draft plan was shared with the Senior Leadership Team for review and comment on 12 March 2020.

2.3. The situation in relation to the coronavirus pandemic evolved quickly in the second half of March 2020 and as a result, internal audit paused the planning process at Step 6, before the plan was agreed by Audit Committee.

2.4. Given the changed risk landscape, in May 2020, Internal Audit revisited the planning process and re-performed the planning process from Steps 3 to 6, taking into consideration the COVID-19 Risk Register which had been endorsed and adopted by CEMT.

2.5. Overall, the impact of COVID has meant the vast majority of risks within the organisation had increased, with new risks emerging and existing risks changing. A new three year plan was developed based on the updated risk assessment.

2.6. Internal Audit developed a proposed plan to address the new risks. In the meantime, the team had been asked to undertake a piece of work specific to the COVID-19 response and using experience from GMP, TfGM as well as other internal audit networks have been able to propose additional audit reviews that had not previously been required to be considered.

2.7. The updated proposed plan was shared with GMCA SLT and CEMT as well as GMFRS CLT for review and comment to ensure that the proposed audits would provide relevant, useful support for the Directorates as well as providing assurance to the Audit Committee.

3. Risk assessment and three-year strategic internal audit plan

3.1. Based on the planning methodology, the following three year internal audit plan has been developed. The risk assessment takes into consideration the following factors that affect the **impact** of each auditable area:

- The **materiality** of the activity, based on the value of funding being processed or the cost of providing the activity
- The **pervasiveness** of the activity, whether it impacts all of the organisation or is restricted only to the area it concerns
- If the activity would cause **service disruption** to the public and/or GMCA organisation
- Whether the activity concerns **delivery** of programmes or projects
- The **reputational** impact on GMCA if the activity was not undertaken appropriately
- Whether there is a **health and safety** impact on the public or GMCA employees
- Whether the activity impacts the **strategic** aims of GMCA
- Whether the activity carries **statutory** responsibility
- If the activity directly relates to a risk on the GMCA **corporate risk** register
- Whether the activity relates to a risk on the **COVID-19 risk** register

3.2. The **likelihood** of the risk has also been assessed, consideration of the likelihood score includes the volatility of local or national policy, the complexity of the activities within the area and the degree of judgement required to undertake the activity.

3.3. Finally, knowledge of the **control environment** has been considered. Where recent audit work undertaken did not identify significant issues within the control environment there can generally be assumed to be more confidence in the control environment than an area that has either not been reviewed recently or where recent work identified issues in control.

3.4. The **risk score** is calculated based on all the factors above.

3.5. The **optimal frequency** of audit activity is driven by the risk score for each auditable area. The optimal frequency is then "**flexed**" to reflect the actual internal audit resource available within the team. Whilst the plan will not address all the risks identified within the risk assessment, if completed as planned, in conjunction with other key sources of assurance, it will provide sufficient audit evidence to determine the annual Head of Internal Audit opinion. In approving the plan the Audit Committee acknowledges this limitation.

3.6. The proposed plan below is shown in descending order by risk score, with GMP and GMFRS being the highest risk areas to GMCA.

Directorate	Auditable Unit	Optimal Audit Frequency	Flexed Audit Frequency	2020/21	2021/22	2022/23
Mayoral Duties	Greater Manchester Police	Annual	Annual	x	x	x
Police / Fire / Criminal Justice	GMFRS	Annual	Annual	x	x	x
Corporate Services	Procurement	Annual	Annual	x	x	x
Corporate Services	Finance	Annual	Annual	x	x	x
Corporate Services	ICT	Annual	Annual	x	x	x
Corporate Services	Waste	Annual	Annual	x	x	x
Corporate Services	Information Governance	Annual	Annual	x	x	x
Police / Fire / Criminal Justice	PCC	Annual	Annual	x	x	x
Education Work and Skills	AEB	Annual	Every 2 years		x	x
Corporate Services	Core Investment Team	Annual	Every 2 years		x	
Digital	Digital	Annual	Every 2 years	x		x
Cross-cutting	Capital grants	Annual	Annual	x	x	x
Cross-cutting	Commissioning and contract management	Annual	Every 2 years		x	
Corporate Services	HROD	Annual	Every 2 years		x	x
Corporate Services	Health, Safety and Wellbeing	Annual	Every 2 years	x		x
Cross-cutting	Programme management	Annual	Every 2 years	x	x	
Corporate Services	Governance	Every 2 years	Every 2 years	x		
Environment	Environment	Every 2 years	Every 3 years		x	
Corporate Services	Legal	Every 2 years	Every 3 years			x
Education Work and Skills	Work	Every 2 years	Every 3 years	x		

Directorate	Auditable Unit	Optimal Audit Frequency	Flexed Audit Frequency	2020/21	2021/22	2022/23
Place Making	Planning	Every 2 years	Every 3 years			x
Corporate Services	Strategy and Research	Every 2 years	Every 3 years	x		
Economy	Economy	Every 2 years	Every 3 years		x	
Education Work and Skills	Education	Every 2 years	Every 3 years			x
Education Work and Skills	Skills	Every 2 years	Every 3 years			x
Place Making	Infrastructure	Every 2 years	Every 3 years	x		
Place Making	Housing	Every 2 years	Every 3 years		x	
Public Service Reform	Public Service Reform	Every 3 years	Every 5 years			
Place Making	Development	Every 3 years	Every 5 years			
Place Making	Property	Every 3 years	Every 5 years			
Corporate Services	Communications	Every 3 years	Every 5 years			
Place Making	Culture	Every 3 years	Every 5 years			
Public Service Reform	Ageing Hub	Every 3 years	Every 5 years			
Corporate Services	Audit	Every 3 years	Every 5 years			

4. 2020/21 Internal Audit Plan

Based on the three-year strategic internal audit plan, an operational plan for 2020/21 has been developed. Details of the plan are as follows:

Directorate	Auditable Unit	Audit title	Description	Proposed Timing
Corporate Services	Chief Executive's Office	Risk Management	Audit of risk management across the organisation to assess risk management maturity and identify areas for improvement.	Q2
Corporate Services	Chief Executive's Office	Lessons Learned - Mortuary commissioning project	Audit requested by Chief Resilience Officer to review the Mortuary Commissioning project.	Q1/2

Directorate	Auditable Unit	Audit title	Description	Proposed Timing
Corporate Services	CIT	GMHILF	Chief Finance Officer annual reporting statement supported by an Internal Audit review of the controls framework for the administration GMHILF funded scheme.	Q4
Corporate Services	Finance	Procurement	A review of the design of procurement policies and procedures and adherence to those policies and procedures across directorates.	Q3
Corporate Services	Finance	Grant certifications	Grant assurance reviews and certification in accordance with relevant grant determination conditions	All
Corporate Services	Finance	Payments and Payroll Controls	Post-event assurance - An audit of new, additional or unusual payments out of CA during the lockdown period	Q3
Corporate Services	Governance	Code of Corporate Governance	A programme of work over areas defined by the Code of Corporate Governance. This audit will focus on Demonstrating Commitment to Ethical Values including consideration of registers of interest, codes of conduct and arrangements for reporting wrongdoing.	Q3
Corporate Services	Governance	Delegated Authorities	Review of the application of the new delegated authorities structure and how it is applied within Directorates.	Q4
Corporate Services	Health, Safety and Wellbeing	Health and Safety Compliance	Review of processes for ensuring compliance with COVID arrangements for workplaces.	Q2
Corporate Services	HROD	Investigation process	Internal audit will review the grievance and disciplinary investigation processes as well as test a sample of investigations to ensure compliance with the process. The audit will also consider how lessons learned and other actions are taken from investigations and implemented.	Q2
Corporate Services	ICT	Outsourced ICT audit work	To be agreed with new Head of ICT and outsourced to external provider of IT Audit services.	TBC
Corporate Services	Waste	Core financial processes (Waste)	Review of cost control arrangements, Invoicing, payment structures and deductions.	Q4
Cross-cutting	Programmes and Projects	Programme Governance	An assessment of the arrangements in place across CA for managing programmes and projects. Including corporate policies and procedures, governance authority and accountability, training and competency. Assessment of strengths and weaknesses and maturity of current arrangements.	Q2

Directorate	Auditable Unit	Audit title	Description	Proposed Timing
Work and Health	Work	Working Well	An audit over the processes and controls over the Working Well programme	Q4
Education	AEB	Advice regarding AEB Assurance framework	Advice and guidance to the AEB team on the development and implementation of the AEB assurance framework.	Q3
Cross-cutting	Programmes and Projects	Large Programme Governance	An audit of the arrangements for large programme governance (eg iOps, PfC, GMP Estates) which will incorporate the principles for programme governance and accountabilities, including with strategic partners such as GMP, NWFC etc. How is there appropriate strategic oversight?	Q4
GMFRS	GMFRS	Pensions administration	An audit requested by External Auditor to be included in the cyclical plan. An audit over the controls in place to administer the GMFRS pension fund.	Q1/2
GMFRS	GMFRS	GMFRS Fleet	This audit will examine the processes for budgeting for fleet maintenance along with the ongoing monitoring of costs and performance against KPIs. We will also assess how value for money is measured and demonstrated.	Q2
GMFRS	GMFRS	Training Centre	The Training area has been through PfC (January 2020). This audit will assess implementation of the Training Centre structure and activities against the Level 2 design	Q4
PCC	PCC	Phase 2 audit of grant processes	Agreed in 19/20 to undertake phase 2 of audit around PCC grant processes	Q3
Other Audit Activity				
Information Governance		Head of IA is a member of the IG Board, ongoing advice and oversight of IG risks through this forum.		All
Risk Management		Internal audit facilitate quarterly risk register updates through the Risk and Governance Group. In 20/21 consideration will be given to the COVID CRR and the eventual merging of the COVID and Corporate risk registers		All
Audit action tracking		Internal audit will monitor and report on progress in the implementation of agreed audit actions		All
Whistleblowing investigations		Receipt and investigation of whistleblowing reports		As needed
Ad-hoc advice and support		Advice and reviews requested in-year in response to new or changing risks and activities.		As needed
Contingency days		Days reserved to address new or emerging risks		As needed

Overarching principles of the plan:

- The plan has been developed to address the key risks identified in the risk assessment process
- The plan has been devised on the assumption each audit takes approximately 20 days. There are 350 available days based on current resourcing levels of Internal Audit
- Given the current environment, risks are changing and emerging on an ongoing basis, for that reason, the plan will be regularly reviewed and updated where necessary. Significant changes will be reported to the Audit Committee.

APPENDIX 1 – Risk Assessment Criteria

The following criterial are used during the risk assessment process

Impact

Impact	1 = Low	2 = Medium	3 - High
Materiality	Not a material financial amount associated with the activity	Financial amount associated with the activity <£50m (funding) or <£1m GMCA costs	Financial amount associated with the activity >£50m (funding) or >£1m GMCA costs
Pervasiveness	Impact isolated to specific activity/funding stream	Risk affects delivery within one or more directorates	Pervasive impact across all functions of the GMCA that would impact operations
Service disruption	No service disruption to core systems / processes /services [GMCA] or to services provided to public by services commissioned by GMCA	Up to 1 day disruption to core systems/processes/services [GMCA] or Potential longer term impact to services provided to public by services commissioned by GMCA	>1 day disruption to core systems/processes/services [GMCA] or Immediate impact to services provided to public by services commissioned by GMCA
Delivery	No impact on delivery of activities / programmes	Some impact on delivery of activities/programmes	Significant impact on delivery
Reputational	None or isolated complaints. No legal concerns.	Poor local publicity curtails ability to operate effectively without active stakeholder engagement.	Serious poor publicity and legal concerns. Affects trust in GMCA
Health and Safety	No health and safety impact	Minor injuries; cuts and bruises (First Aid Case)	RIDDOR reportable injury
Strategic	Negligible threat to achieving a Strategic Priority	Medium term threat to achieving one or more outcomes within a Strategic Priority	Critical long-term threat to achieving a Strategic Priority
Statutory	No statutory impact	Risk of isolated breach of statutory requirement or risk that statutory powers will not be delivered	Risk of repeated breach of statutory requirement or risk that statutory powers will not be delivered
Corporate risk	0 = Not on corporate risk register		Appears on corporate risk register
COVID 19 risk	0 = C19 has not changed risk profile	New risks emerged / emerging as a result of Covid19	Appears on Covid-19 CRR

Likelihood

Score	Description	Example
5	Risk is frequently encountered or has crystallised	High volume of transactions, frequent changes in environment, complex processing/instances, variation of activity
4	Likely to happen in the next year	New (in last 2 years) or tailored activities/transactions/contracts, frequent and changing environment
3	Likely to happen in the next two years	Frequent transactions, medium complexity, impacted by local/national policy likely to change
2	May occur in the next three years	Regular transactions, non-complex, impacted by longer term national policy
1	May occur in exceptional circumstances	Infrequent transactions, homogeneous population of transactions, little change in environment

Control Environment rating

Control environment

Score	Criteria
1	Evidence that control environment requires improvement through previous audit work and/or issues
2	Cumulative Audit Knowledge that control environment requires improvement or older evidence where improvements were required
3	No recent evidence that would influence knowledge of control environment
4	Older evidence supporting robust control environment OR Recent evidence showing adequate control environment but with some areas for improvement.
5	Recent (last 12 months) IA evidence supporting robust equate control environment with few or no high/critical findings OR Recent assurance provided from other sources (eg HMICFRS/ICO)

GMCA GREATER MANCHESTER COMBINED AUTHORITY

GMCA Audit Committee

Date: 30 June 2020

Subject: Internal Audit Charter

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The Internal Audit charter establishes the framework within which the Internal Audit Service operates to best serve the independent assurance requirements of the GMCA Audit Committee and also to meet its professional obligations under applicable professional standards.

In line with the Public Sector Internal Audit Standards, the charter is a mandatory document that must be in place and reviewed on a regular basis. It is proposed that this review is undertaken by the Head of Audit and Assurance and the charter presented to the Audit Committee annually for approval.

RECOMMENDATIONS:

That the Audit Committee approve the Internal Audit Charter.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,

sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – see paragraph 5

Legal Considerations – N/A

Financial Consequences – N/A

Financial Consequences – N/A

Number of attachments included in the report: N/A

BACKGROUND PAPERS:

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution	No	
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?	N/A	
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

Greater Manchester Combined Authority (GMCA) Internal Audit Charter 2020/21

1 Introduction

1.1 This charter establishes the framework within which the Internal Audit Service operates to best serve the independent assurance requirements of the GMCA Audit Committee and also to meet its professional obligations under applicable professional standards.

1.2 The charter defines the mission, purpose, authority and principle responsibilities of the Internal Audit Service. It establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.

1.3 The charter will be subject to periodic review by the Head of Audit and Assurance and presented to senior management and the Audit Committee for approval.

2 Mission Statement

2.1 Internal Audit aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3 Purpose

3.1 The Internal Audit Service provides independent assurance to the Audit Committee on the effectiveness of the governance, risk management and internal control arrangements in place within GMCA and GM Fire and Rescue Service (GMFRS). It objectively evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4 Definitions

Internal Auditing:	"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." – Public Sector Internal Audit Standards 2017.
Board:	Greater Manchester Combined Authority

Senior Management:	Members of the Chief Executive's Management Team (CEMT)
Chief Audit Executive:	Head of Audit and Assurance
Responsible Financial Officer:	GMCA Treasurer

5 Statutory Requirements

5.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which state "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

5.2 This statutory role is recognised and endorsed in GMCA's Constitution and Financial Regulations.

6 Professional Standards

6.1 The Internal Audit Service adheres to the Public Sector Internal Audit Standards (PSIAS), published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is the relevant standard setter for internal audit in local government in the United Kingdom.

6.2 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

6.3 PSIAS also requires that Internal Auditors who work in the public sector must have regard to the Committee on Standards of Public Life Seven Principles of Public Life.

7 Reporting Lines

7.1 The Internal Audit Service sits within the Corporate Services Directorate. The Head of Audit and Assurance reports to the GMCA Treasurer on all corporate governance, performance matters and on all matters affecting the day to day administration and operation of the service.

7.2 The Head of Audit and Assurance also reports to the Treasurer as GMCA's 'Responsible Financial Officer' on all matters of internal financial control, fraud and irregularity and protection of assets. In recognition of the statutory duties of the 'Responsible Financial Officer' and the views of CIPFA on that person's relationship with internal audit, a formal protocol has been adopted to form the basis for a sound and effective working relationship. The protocol is attached to this Charter at Appendix 1.

8 Access and Authority

8.1 The Head of Audit and Assurance, or their representative, has authority to enter all of GMCA's property at any time and have access to all documents and other records that appear necessary for the purpose of an audit. Such access shall be granted on demand and need not be subject to prior notice. The Head of Audit and Assurance is entitled to such information and explanations as appear necessary. The Head of Audit and Assurance can require any employee to produce any GMCA property under his or her control. This will include access to records relating to services provided by or on behalf of other organisations and management should consult with the Head of Audit and Assurance when contracts are drafted to ensure rights of access are included.

8.2 The Head of Audit and Assurance has free and confidential access to the Chair of the Audit Committee and reports to Audit Committee meetings as set out in the Committee's terms of reference.

8.3 The Head of Audit and Assurance shall have right of access to the Chief Executive Officer.

8.4 Internal Auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to GMCA's legitimate and ethical objectives.

9 Independence and Objectivity

9.1 The PSIAS define independence as "freedom from conditions that threaten the ability of the Internal Audit Service to carry out its responsibilities in an unbiased manner". To assist Internal Audit to carry out the role and constructively challenge senior managers of GMCA, the Head of Audit and Assurance holds a sufficiently senior position.

9.2 The Internal Audit Service remains independent of other functions of GMCA, and with the exception of its support to management in relation to counter fraud and risk management work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

9.3 The Internal Audit Service's work programme and priorities are determined in consultation with senior management and the Board, but remain a decision for the Head of Audit and Assurance. The Head of Audit and Assurance has direct access to and freedom to report in their own name and without fear or favour.

9.4 The independence of the Head of Audit and Assurance is further safeguarded by ensuring that their remuneration and performance assessment are not inappropriately influenced by those subject to audit.

9.5 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate.

9.6 Internal Audit team members who have transferred into the department will not be asked to review any aspects of their previous work within 12 months of them having left that area.

9.7 The Head of Audit and Assurance makes an annual declaration that the internal audit function is operationally independent.

10 Internal Audit Responsibilities

10.1 The scope for internal audit is "the control environment comprising risk management, control and governance". The scope of internal audit therefore includes all of GMCA and GMFRS operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of internal audit work. In order to prioritise the allocation of internal audit coverage a risk-based approach is used.

10.2 Internal Audit responsibilities include the following:

- Examining and evaluating the adequacy of GMCA's system of internal control;
- Reviewing the procedures in place for ensuring that projects are properly managed and that decision making processes are robust;
- Reviewing the integrity and reliability of financial and operating information and the means to identify, measure, classify and report such information;
- Reviewing the systems established by management to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations and reports and determining whether GMCA is compliant;
- Reviewing the extent to which GMCA's assets and interests are accounted for and safeguarded against loss of all kinds arising from fraud and other offences. Where appropriate verifying the existence of assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed;

- Reviewing operations, projects or programmes to ascertain whether results are consistent with established objectives and whether the operations, projects or programmes are being carried out as planned;
- Reviewing the extent to which risks to GMCA's key objectives and fraud and corruption risks are assessed and appropriately mitigated and managed; and
- Providing assurance to other parties in relation to grant funding certifications.

10.3 Directors are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Directorate, and for responding to Internal Audit requests and reports within agreed timescales.

11 Consultancy Services

11.1 The Internal Audit Service provide independent and objective advice to help management improve their risk management, governance and internal control arrangements. This is primarily achieved by the planned programme of assurance assignments. Consultancy work driven by risk-based planning may typically be on those areas of the organisation's business where risk and control are not in existence or not well established. This could relate to new systems or areas undergoing significant change where there is no system of risk management or control framework to assure. Consultancy work adds to Internal Audit's knowledge base and can contribute to the overall Internal Audit opinion and/or assurance rating.

11.2 In relation to consultancy services, the Head of Audit and Assurance must:

- consider the effect on the opinion work before accepting consultancy services over and above any already agreed as part of the Internal Audit plan. Approval will be sought from the Joint Audit Panel for any significant additional consultancy services not already included in the Internal Audit Plan if it is deemed that taking on the work could impact the delivery of the agreed Internal Audit Plan or annual opinion.
- decline the consulting engagement or obtain competent advice and assistance if the Internal Auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- consider if consultancy work contributes to the overall annual opinion.

11.3 The standard of work that is delivered in consultancy services will be the same as that in assurance work. The mandatory requirements of the PSIAS relate to standard of performance in both assurance and consultancy activities.

12 Fraud and Corruption

12.1 The responsibility for the prevention and detection of fraud and corruption lies with management. Audit procedures alone cannot guarantee that fraud or corruption will be detected. Internal Audit will however be alert in all of their work to risks and exposures that could allow fraud or corruption.

12.2 The role of Internal Audit with regard to fraud investigation is detailed in GMCA's Anti-Fraud and Corruption Policy Statement. Any suspected fraud or irregularities will be reported to the Head of Audit and Assurance so that investigation work can be carried out and the adequacy of relevant controls considered.

13 Resourcing

13.1 Internal Audit should be appropriately resourced in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors should be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.

13.2 The Head of Audit and Assurance is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit and Assurance concludes that resources were insufficient they would report this to the GMCA Treasurer and the Audit Committee. The Head of Audit and Assurance is responsible for appointing staff to the Internal Audit Service and ensuring that there is the appropriate mix of qualifications, experience and audit skills.

14 Reporting

14.1 The Head of Audit and Assurance will issue to the Audit Committee:

- An annual Strategic Internal Audit Plan – This will be a risk-based plan prepared in conjunction with management that will take into consideration:
  - Strategic risks
  - Key operational risks
  - Previous audit opinions
  - Other sources of assurance
  - Internal Audit resources
- For each meeting of the Audit Committee, reports on progress of the Internal Audit work, encompassing:
  - Progress on delivery of the agreed Internal Audit Plan.
  - Any significant resourcing issues affecting the delivery of Internal Audit Objectives.
  - Key findings from Internal Audit work performed.
  - Progress on the implementation of Internal Audit recommendations.
  - Progress on the delivery of any additional consulting services not included in the Internal Audit Plan.
  - Proposed changes to the Internal Audit Plan for approval by the Audit Committee.
  - Counter fraud and investigation activity.
- An annual report which will include:
  - A summary of the work undertaken in the period.
  - The Head of Audit and Assurance's overall assurance opinion.

- A statement of conformity with PSIAS.
- The results of the quality assurance and improvement programme (QAIP).

14.2 All audit engagements will be the subject of formal Internal Audit reports. Copies of all final reports will be shared with:

- Audit Sponsor
- Key Audit Contacts
- Chief Executive Officer
- Treasurer
- Chair of the Audit Committee
- External Auditor

15 External Audit

15.1 The work of External Audit is factored into the Internal Audit work plan, and Internal Audit and External Audit meet formally and informally during the year in order to share key audit findings and/or areas of potential focus. Whilst GMCA's current External Auditors do not place any reliance on Internal Audit's work all internal audit reports are shared with the External Auditors to provide visibility of audit conclusions and findings.

16 Other Sources of Assurance

16.1 Internal Audit is one source of assurance but there are also other sources of assurance that are either routinely provided or are provided on an ad-hoc basis due to specific circumstances. The "Lines of Defence" model helps understand where and how assurance is achieved:

- First line – Day to day operational activities that establish systems, processes and controls across all activities.
- Second line – Oversight and management review. It is separate from those people who undertake those responsibilities on a day to day basis, as part of their normal duties.
- Third line – This relates to independent, objective assurance obtained through Internal Audit, which, through an approved programme of work, is able to provide an objective opinion on the effectiveness of governance, risk management and internal control arrangements.
- Fourth line – This relates to other external sources of assurance that are independent and removed from the chain of command. Examples include the Health and Safety Executive (HSE), HMICFRS, and other external sources of assurance.

16.2 The Head of Audit and Assurance will work with management to understand sources of assurance across all lines of defence in order to ensure that an effective, integrated assurance framework is established. This will assist in the efficient and effective deployment of Internal Audit resource and reduce duplication of assurance provision.

17 Quality Assurance and Improvement

17.1 The Head of Audit and Assurance operates a Quality Assurance and Improvement Programme (QAIP) that both monitors the on-going performance of Internal Audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments.

17.2 The results of the QAIP, including any areas of non-conformance with PSIAS, are reported annually to senior management and the Audit Committee.

APPENDIX 1: Protocol governing the Relationship between the Section 73 Officer (the Chief Financial Officer) and Internal Audit at GMCA.

In recognition of the statutory duties of the 'Chief Financial Officer' (CFO) and the view of CIPFA on his relationship with Internal Audit, the following protocol has been adopted at GMCA to form the basis for a sound and effective working relationship:

The Head of Audit and Assurance will seek to maintain a positive and effective working relationship with GMCA's CFO (GMCA Treasurer).

Internal Audit will review the effectiveness of GMCA's system of internal controls and report on whether the controls operate effectively in practice.

The Treasurer will be asked to comment on those elements of the Internal Audit Service's programme of work that relate to the discharge of his statutory duties. In devising the Audit Plan and in carrying out internal audit work, the Head of Audit and Assurance will give full regard to the comments of the Treasurer.

The Head of Audit and Assurance will regularly monitor the performance of the Internal Audit Service against the Audit Plan and will notify the Treasurer if there are any major deviations.

The Treasurer will, on request, be provided with appropriate assurance that the audit staff are competent, well trained and effective in their work.

The Treasurer will be specifically informed by the Head of Audit and Assurance where any matter is identified that impacts on his Section 73 role.

The Treasurer will specifically make the Head of Audit and Assurance aware of any concerns that he has about internal control that might lead to the need for an internal audit investigation or review.

The Internal Audit Service will operate in accordance with the March 2017 Public Sector Internal Audit Standards.

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Audit Strategy Memorandum

Greater Manchester Combined Authority

Year ending 31 March 2020

MAZARS

CONTENTS

Mazars LLP
One Saint Peter's Square
Manchester
M2 3DE

Members of the Audit Committee
Greater Manchester Combined Authority
Churchgate House
56 Oxford Street
Manchester
M1 6EU

6 April 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Greater Manchester Combined Authority for the year ending 31 March 2020

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Greater Manchester Combined Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0113 394 5316.

Yours faithfully

Mark Dalton

Director

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Greater Manchester Combined Authority (the Authority) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority for the year.

Value for Money

We are required to conclude whether the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

- Mark Dalton - Director
- Mark.dalton@mazars.co.uk
- 0113 394 5316 / 07795 506766

- Daniel Watson – Senior Manager
- Daniel.watson@mazars.co.uk
- 0161 238 9349 / 07909 985324

- Amelia Payton – Assistant Manager
- Amelia.payton@mazars.co.uk
- 0161 238 9308 / 07823 521012

In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

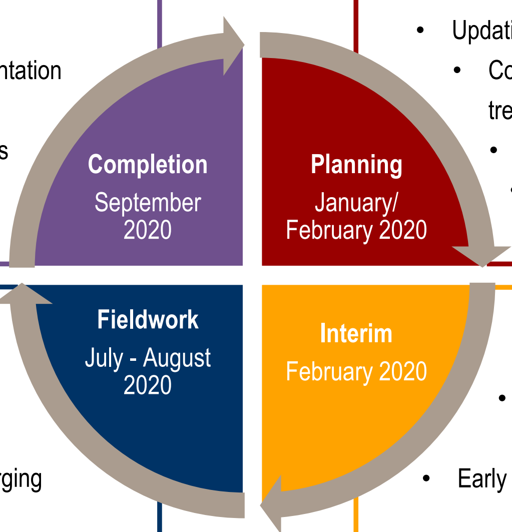
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit Committee
- Reviewing post balance sheet events
- Signing our opinion

- Initial opinion and value for money risk assessments
- Updating our understanding of the Authority
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

We have agreed with the Treasurer to complete the audit and report to those charged with governance by 30 September 2020. This extended timescale is in line with the MHCLG announcement that for the 2019/20 accounting period we would be extending the period for publication of principal authority accounts to 30 September 2020

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Hymans Robertson (Greater Manchester Pension Fund) and the Government Actuary Department (Firefighters' Pension Scheme)	PwC as NAO's consulting actuary
Property, plant and equipment valuation	Salford City Council, Avison Young and Hilco Valuation Services	We will use available third party information to challenge the valuer's key assumptions
Financial instrument disclosures	Link Asset Services	We will review the expert's methodology in calculating the fair value disclosures to confirm the reasonableness of assumptions used

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Treasury Management	Manchester City Council	We have access to all the relevant data we need in order to gain assurance over the Authority's treasury management balances.
BACS bureau	Wigan Metropolitan Borough Council	We have access to all the relevant data we need in order to gain assurance over the Authority's BACS payments.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

The Authority prepares Group accounts and consolidates the following bodies

- Chief Constable of Greater Manchester Police (GMP) – under public sector accounting treatment consolidated into the GMCA Group
- Transport for Greater Manchester (TfGM) – consolidated into the GMCA Group as the Authority's executive body for delivery of transport services
- NW Evergreen Holdings Limited Partnership (NWEH)

Mazars UK are the appointed auditor for the Chief Constable and Transport for Greater Manchester. As such we are the appointed auditor, and Mark Dalton is the RI, for 99% of the Group's total expenditure.

The approach to the Group audit is set out below:

Entity	Level of response	Risks identified	Planned audit approach
Chief Constable of Greater Manchester Police	Full-scope audit procedures	Management Override of Controls Valuation of Net Pension Liability	We will: • complete full-scope audit procedures on the Chief Constable of Greater Manchester's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Transport for Greater Manchester	Full-scope audit procedures	Management Override of Controls Fraud in Revenue Recognition Valuation of Property, Plant and Equipment Valuation of Net Pension Liability	We will: • complete full-scope audit procedures on Transport for Greater Manchester's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
NW Evergreen Holdings Limited Partnership	Desktop analytical procedures plus specified audit procedures over trade receivables	None	We will: • complete analytical procedures on NW Evergreen Holdings Limited Partnership's financial statements; • As the group audit team we will undertake specific audit procedures over trade receivables balance; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.

We apply a separate materiality for the audit of the Group accounts as set out in Section 8.

The Authority also holds investments and interests in other bodies. Management carry out an annual assessment to see if these bodies have become sufficiently material to warrant consolidation into the Group accounts. Greater Manchester Fund of Funds Limited Partnership, NW Fire Control Company, Commission for New Economy Limited, Greater Manchester Accessible Transport Limited and Manchester Investment and Development Agency Service were not consolidated in 2018/19 because their inclusion would not materially alter the accounts. We will revisit management's assessment of the Group for 2019/20.

We have not identified any significant risks for Group accounts purposes in relation to the components. The significant risks and areas of audit focus for the Authority as a single-entity are set out in section 4. Based on our initial planning discussions we do not consider these significant risks to be risks for the component subsidiary companies.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

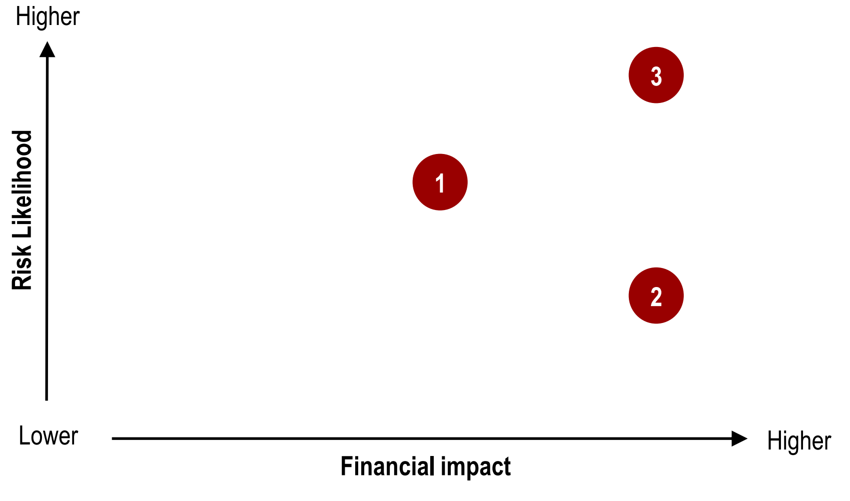
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description of risk	Planned response
1	**Management override of controls** 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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Valuation of Property, Plant & 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. The Authority 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 valuers), 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 is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end. The estimation uncertainty of such valuations is further increased as a result of the market impact of COVID-19. The Royal Institute of Chartered Surveyors (RICS) has also issued a Valuation Practice Alert (VPA), which guides valuers to consider the use of material uncertainty declarations in their valuation reports.	In relation to the valuation of property, plant & equipment we will: • Critically assess the Authority's valuer's scope of work, qualifications, objectivity and independence to carry out the Authority's programme of revaluations; • Consider whether the overall revaluation methodology used by the Authority's valuers is in line with industry practice, the CIPFA Code of Practice and the Authority's accounting policies; • Reconcile the valuer's report to the fixed asset register and ensure that the values per the report have been correctly input, in total, to the asset register; • Critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's calculations (including in relation to COVID-19), using available third party evidence; • Review the basis of valuation and confirm that this is appropriate and agrees to the asset register; • Critically assess the treatment of the upward and downward revaluations in the Authority's financial statements with regards to the requirements of the CIPFA Code of Practice; and • Assess 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 assess the approach that the Authority adopts to ensure that assets not subject to revaluation in 2019/20 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Authority's valuers.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks

	Description of risk	Planned response
3	**Valuation of Defined Benefit Pension Liability** The net pension liability represents a material element of the Authority's balance sheet. The Authority's liability is split between the Greater Manchester Pension Scheme and the Fire Fighters Pension Scheme. The valuation of the pension scheme liabilities relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Authority'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 is a risk that the assumptions and methodology used in valuing the Authority's pension obligation are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2019/20. The risk has increased as a result of the market uncertainties arising from the impact of COVID-19.	In relation to the valuation of the Authority's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson and the Fire Fighters Pension Scheme Actuary, the Government Actuary Department (GAD); • Liaise 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; • Review 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; • Agree the data in the IAS 19 valuation report provided by the Funds Actuaries for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements. • Given the market uncertainties arising from the impact of Coronavirus, we may require GMCA to obtain an additional valuation of the pension liability as at 31 March 2020, to update the 31 December 2019 valuation where estimates are applied for the final three months of the financial year. A further valuation would incorporate actual performance.

Revenue recognition

International Standard on Auditing (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector. We also consider that there are limited incentives and opportunities to manipulate the way income is recognised in local government.

Based on our understanding of the Authority's revenue streams we have rebutted the presumption that revenue recognition is a significant risk at the Authority. Our testing of revenue is focused on our standard procedures and does not incorporate specific work on the risk of fraud in recognising revenue.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement / enhanced risk	Planned response
1	**Private Finance Initiative (PFI) scheme** The Authority has no new PFI schemes in 2019/20. However, the Authority continues to make judgements that result in the Authority's accounting for the PFI assets and liabilities in its financial statements.	We will consider the continued accounting treatment of the PFI scheme assets and liabilities as being in the Authority's financial statements

5. VALUE FOR MONEY

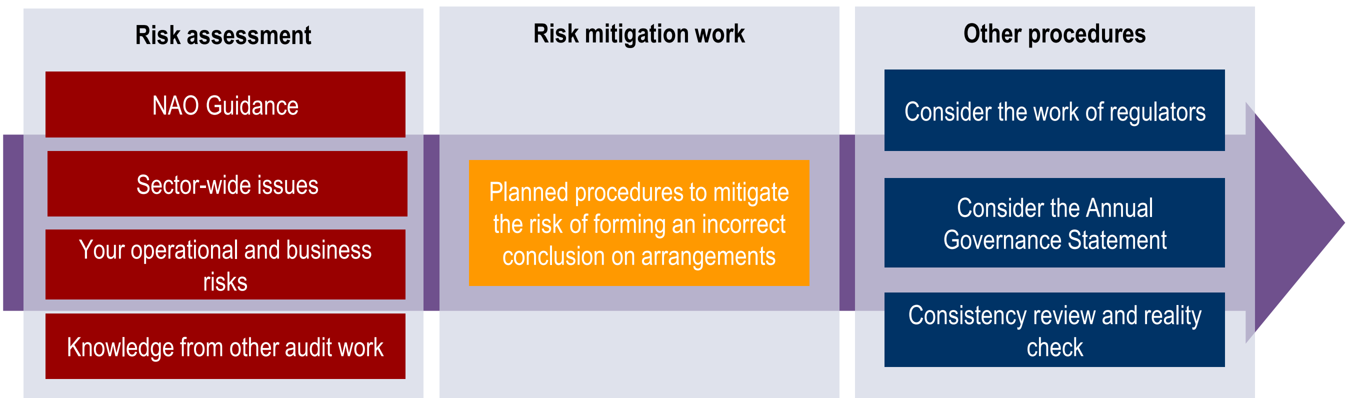
Our approach to Value for Money
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority 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; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks
The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have set out below a significant risk to our VFM conclusion. In addition we have still to complete our consideration of other possible risk areas, in particular GMCA's response to the review of 'Operation Augusta' to ensure the outcomes of the review are addressed.

Description of significant risk	Planned response
Programme for Change The Programme for Change Outline Business Case sets out a transformational programme for Greater Manchester Fire and Rescue Service. Following a period of public consultation a number of amendments were made to the Outline Business Case in September 2019. There is a risk that, without effective governance arrangements in place, the Programme for Change will not deliver the service transformation in a sustainable manner.	We will review the governance arrangements in place to address the findings of the public consultation and how these influenced the decision making process in respect of the Outline Business Case. We will keep up to date on the progress in developing and implementing the Programme for Change up to the date of issuing our Value for Money Conclusion.

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5. VALUE FOR MONEY

Significant Value for Money risks continued

Description of significant risk	Planned response
Bus Reform The Bus Services Act 2017 gave Greater Manchester Combined Authority new powers to reform the local bus market. The Mayor of Greater Manchester is considering the outcomes from a public consultation on a proposed bus franchising scheme which took place during 2019/20. There is a risk that, without effective governance arrangements in place, the decision over the future of bus services in Greater Manchester will not deliver value for money.	We will review the governance arrangements in place behind the decision making process, including how the Authority has sought external advice where necessary. We will keep up to date on the progress in developing and implement the Programme for Change up to the date of issuing our Value for Money Conclusion.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

We have agreed an ongoing fee for the 2019/20 audit and beyond with the Authority's Treasurer based on our risk assessment of the Authority. This is subject to PSAA approval.

Service	2018/19 fee	2019/20 fee
Code audit work	74,000	70,000

We have not yet completed our work on the Authority's Whole of Government Accounts return for 2018/19 due to delays in receiving the return and errors identified in the original draft. We will agree an additional fee in respect of 2018/19 with the Authority Treasurer and PSAA once this work is completed.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Authority to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2018/19 fee	2019/20 fee
Regional Growth Fund Grants Assurance	£3,385	N/a

Services provided to other entities within the Authority's group

Through the PSAA procurement process we are also the appointed auditor for two of the Authority's group bodies. Our fees in respect of these are set out below.

Service	2018/19 fee	2019/20 fee
Transport for Greater Manchester	£33,672	£33,672
Chief Constable of Greater Manchester Police	£42,000	£42,000

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Dalton in the first instance.

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group threshold (£'000)	GMCA threshold (£'000s)
Overall materiality	35,000	25,000
Performance materiality	17,500	12,500
Trivial threshold for errors to be reported to the Audit Committee	1,050	750

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/deficit on Provision of Services. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that Gross Revenue Expenditure at Surplus/deficit on Provision of Services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at approximately 1.6% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the prior year financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £35m (group) and £25m (GMCA single entity) (£23.5m and £19.8m respectively in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on our knowledge of the Authority's closedown procedures and financial statements from the prior year. Due to the number of errors identified during the 2018/19 audit process we have applied 50% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'s)
Officer Remuneration bandings	£5,000*
Related party transactions	£50,000

*Reflecting movement from one salary band to another

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £1,050k (group) and £750k (GMCA single entity) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to the Audit Committee
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 30th June 2020

Subject: Accounting Policies and Critical Accounting Judgements

Report of: Steve Wilson GMCA Treasurer

PURPOSE OF REPORT

The report provides an update on the proposed Accounting Polices and the Critical Accounting Judgements for the 2019/20 GMCA Statement of Accounts.

RECOMMENDATIONS:

That the Audit Committee note the proposals and that they will be asked to approve these within the Statement of Accounts when they are presented for full approval in August 2020.

CONTACT OFFICERS:

Name: **Steve Wilson**
Position: **Treasurer, GMCA**
E-mail: **steve.wilson@greatermanchester-ca.gov.uk**

Name: **Rachel Rosewell**
Position: **Deputy Treasurer, GMCA**
E-mail: **Rachel.rosewell@greatermanchester-ca.gov.uk**
Equalities Implications:

Not applicable

Climate Change Impact Assessment and Mitigation Measures –

Not applicable

Risk Management:

Legal Considerations: There are no specific legal considerations contained in the report.

Financial Consequences – Revenue: There are no specific revenue considerations contained in the report.

Financial Consequences – Capital: There are no specific capital considerations contained in the report.

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee

BACKGROUND PAPERS:

Greater Manchester Combined Authority GMCA Revenue and Capital Budgets 2020/21 Overview (Budget Paper A)

GMCA Annual Governance Statement 2019/20

<table>
<tr><td colspan="2">TRACKING/PROCESS</td><td colspan="2">[All sections to be completed]</td></tr>
<tr><td colspan="3">Does this report relate to a major strategic decision, as set out in the GMCA Constitution</td><td>No</td></tr>
<tr><td colspan="4">EXEMPTION FROM CALL IN</td></tr>
<tr><td colspan="2">Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?</td><td colspan="2">No</td></tr>
<tr><td>GM Transport Committee</td><td colspan="2">Overview & Scrutiny Committee</td><td rowspan="2"></td></tr>
<tr><td></td><td colspan="2"></td></tr>
</table>

1. Introduction

1.1. A description of Accounting Concepts and Polices and Critical Accounting Judgments are included as notes (1 and 2) to the Statement of Accounts. It is an annual process that these are reviewed early in the closedown process as these set the framework for the preparation of the financial statements.

2. Accounting Concepts and Policies

2.1. The accounting policies have been reviewed and updated in line with the capital strategy presented to audit committee earlier this year. There is one new policy this year around intangible assets as a result of GMP's Integrated Operational Policing System (IOPS) which will be included in the GMCA balance sheet.

2.2. The proposed Accounting Policies are set out in Appendix A

3. Critical Accounting Judgements

3.1. In applying the accounting policies during the preparation of the accounts the Authority has had to make certain judgements about complex in-year transactions or those involving uncertainty about future events. The judgements are set out as a specific note to the accounts and underpin the accounts preparation process.

3.2. The proposed Critical Accounting Judgements are set out in Appendix B.

4. Recommendations

4.1. That the Audit Committee note the proposals and that they will be asked to approve these within the Statement of Accounts when they are tabled for full approval in August 2020.

Appendix A

1 Accounting Concepts and Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These regulations require the Accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accounting Concepts

Going concern

The accounts are prepared on a going concern basis. This assumes that the Authority will continue in operation for the foreseeable future.

As a combined authority, the GMCA has to operate within its powers. The services provided by the GMCA include waste disposal functions, fire and rescue functions, police and crime commissioner, transport, economic development and regeneration. These services are funded by levies paid by the 10 Greater Manchester authorities, precepts collected by the 10 Greater Manchester authorities and grants provided by central government. The Authority does not anticipate that these levies, precepts or grants will cease in the foreseeable future given the statutory requirements placed on the GMCA to provide these services.

The group includes TfGM, which provides the transport network across Greater Manchester, and although transport related borrowing sits on the GMCA balance sheet, all the transport assets sit on TFGM's balance sheet. GMCA carries sufficient reserves in respect of each of its functions to provide resilience in the event of volatility in its various funding sources.

Accounting Policies

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet;
- Expenses relating to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than on the basis of the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance sheet.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions and Local Authorities, repayable without penalty on notice of no more than 24 hours.

Cash equivalents are highly liquid investments that mature in no more than three months from the balance sheet date and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies, or to correct a material error. Changes in accounting estimates are accounted for prospectively, in other words, in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. If material errors are discovered in a prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

The Comprehensive Income and Expenditure Statement is debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible non current assets attributable to the service.

The Authority is not required to raise precepts, levies or district contributions to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to a minimum revenue provision (MRP) amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the MRP contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Termination Benefits

Termination benefits are amounts payable, as a result of a decision by the Authority, to terminate an Officer's employment or an Officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an Officer or group of Officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are made to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits – Pensions

Employees of the Authority and its Group are divided between two separate pension schemes: The Government Actuary Department Pension Scheme for its uniformed firefighters and police officers and the Local Government Pension Scheme for all other staff.

In accordance with proper practices the Authority has fully complied with the International Financial Reporting Standard IAS19 (Employee Benefits). All Pension schemes are classified as 'defined benefit' schemes under IAS19 and the accounting principles and their effect on the financial statements are explained below.

The Fire Service Pension Scheme
This is an unfunded scheme, which is administered by the Authority in accordance with Government Regulations. For such schemes as there are no investment assets, IAS19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the Comprehensive Income and Expenditure Account for movements in the liability and reserve. The primary objective is to allow the separation of the cost of providing pensions from the cost of running a fire and rescue service.

Under Government Regulations, if the amounts receivable by the pension fund for the year is less than amounts payable, the Authority must annually transfer an amount required to meet the deficit to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this cost is met by central government top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Authority, who then must repay the amount to central government.

The Police Pension Scheme
The Police Pension scheme for police officers is an unfunded defined benefit scheme administered by the Chief Constable. There are no investment assets built up to meet the pension liabilities and cash has to be generated from employee and employer contributions to meet actual pension payments as they eventually fall due.

Under the Police Pensions Fund Regulations 2007, if the amounts receivable by the pensions fund for the year is less than amounts payable, the Authority must annually transfer an amount required to meet the deficit to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this cost is met by central government top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Authority, who then must repay the amount to central government.

The Police Pension Fund Account was established under the Police Pension Fund Regulations 2007 and is administered and managed by the Chief Constable on behalf of the Authority.

Local Government Pension Scheme
The Authority pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefits scheme administered by Tameside Metropolitan Borough Council from whom an Annual Report is available.

The liabilities of the Greater Manchester Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Property, Plant and Equipment and Assets under Construction
These are assets having physical substance and being held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Exceptions to this are Traffic Signals and Vehicles, which are fully capitalised with no minimum level.

Repairs expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Any revaluation of assets either upward or downward would be reflected in the Authority's asset base.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains after any reversals of previous losses have been credited to the Surplus or Deficit on the Provision of Services.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

Assets are then carried in the balance sheet using the following measurement bases:

- Assets under construction – depreciated historical cost;
- Surplus Assets – fair value;
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Where non-property assets that have short useful lives or low values (or both), for example vehicles, depreciated historical cost basis is used as a proxy for fair value.

Capitalisation of Interest/Borrowing costs
Borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs are interest and other costs that the Authority incurs in connection with the borrowing of funds.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed its fair value, unless the acquisition does not have commercial substance (in other words, it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Impairment
Assets are assessed each year as to whether there are indications that an asset may be impaired. Where reliable and consistent indications exist and differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation of Property, Plant and Equipment
Depreciation has been calculated using a straight-line method (i.e. apportioned equally over each year of the life of the asset) for all assets. Depreciation is charged to the service with a corresponding reduction in the value of the asset. The depreciation charge is reversed in the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account. Residual values, useful lives and depreciation methods are reviewed at each financial year-end.

- Infrastructure assets - The estimated useful life of each asset has been determined by reference to the records kept by TfGM;
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant and equipment – straight-line allocation over the useful life of the asset as advised by a suitably qualified officer;
- Freehold land and community assets are not depreciated.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Derecognition of Property, Plant and Equipment
An item of Property, Plant and Equipment is derecognised by disposal or when no future economic benefit or service potential is expected from its use. The carrying amount of a replaced or restored part of an asset is derecognised with the carrying amount of the new component being recognised. The written off value of disposals is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

Disposals
When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal of £10,000 or more are categorised as capital receipts, are credited to the Capital Receipts Reserve (CRR), and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the relevant Mayoral or GMCA CRR from the relevant Mayoral or GMCA Balances in the movement in reserves statement.

The written-off value of disposals is not a charge against statutory funding, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the relevant General Fund balance in the Movement in Reserves Statement.

Componentisation Policy
The Code of Practice on Local Authority Accounting requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset to be depreciated separately. Where there is more than one significant part of the same asset that has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice, this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure incurred and revaluations carried out from 1 April 2010.

Intangible Assets
Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authorities goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant area in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Fair Value

The Authority measures some of its non-financial assets, such as Investment Properties and Surplus Assets, and some of its financial instruments at fair value at each reporting date, if material. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset; or
- In the absence of a principal market, in the most advantageous market for the asset.

The Authority uses valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant in terms of pricing (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Unquoted Equity Investments are recognised on the trade date, i.e. the date the Authority becomes committed to the purchase and would not be able to avoid acquiring it without breaking the contract, rather than the date the settlement takes place, if this is a later date.

If there is no quoted market price for the asset, then a reliable valuation technique should be applied. This could be a discounted cash flow analysis of dividends received or a valuation of the Authority's share of the company.

Where financial liabilities and financial assets are carried in the balance sheet at amortised cost, they are shown below. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the PWLB, new borrowing rates from the PWLB have been applied to provide the fair value;
- For non PWLB loans payable, prevailing market rates have been applied to provide the fair value;
- The fair value of trade and other receivables and creditors is taken to be the invoiced or billed amount;

The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 inputs – quoted prices in active markets for identical assets that the Authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset or liability where market data is not available.

Revenue Expenditure Funded by Capital Under Statute
Revenue Expenditure Funded by Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet. Expenditure is charged to the Deficit / (Surplus) on the Provision of Services as the expenditure is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

Minimum Revenue Provision
The Authority is required to make a provision for the repayment of an element of the accumulated capital expenditure each year, financed by borrowing, through a revenue charge, in accordance with the Minimum Revenue Provision (MRP) requirements. Regulations have replaced the detailed formula for calculating MRP with a requirement to be prudent. The MRP policy is included within the annual Treasury Management Strategy agreed by the Authority, which details the guidance and options for the basis of the provision. The GMCA has adopted the following policy:

- MRP in relation to capital expenditure incurred before 1st April 2008 will be based upon 4% of the adjusted Capital Financing Requirement (CFR) in accordance with Option 1: the Regulatory method.
- For capital expenditure incurred between 1st April 2008 and 31st March 2018 the following will apply (being the policies adopted by the previous organisations):
    - For capital expenditure incurred on the Metrolink and Transport Delivery Programme schemes and Waste Disposal assets, MRP will be calculated using Option 3b: the Asset life (Annuity) method.
    - For capital expenditure incurred on PCC assets MRP will be calculated using Option 3a: the Asset Life (Equal Instalment) method.
    - For capital expenditure incurred on GM Fire assets MRP will be calculated using Option 4: the Depreciation method.
- For capital expenditure incurred on or after 1st April 2018, MRP will be calculated using Option 3b: the Asset life (Annuity) method for all classes of asset. The interest rate applied will be linked to market interest rates and the useful life of the asset.
- MRP in respect of on balance sheet leases and PFI contracts is regarded as met by the amount that writes down the balance sheet liability.

- MRP will generally commence in the financial year following the one in which the expenditure was incurred. However, for long life assets, the authority will postpone the commencement of MRP until the financial year following the one in which the asset becomes operational.
- Estimated asset lives will reflect the life assigned to the asset on the asset register unless the GMCA considers a different life is more appropriate. Estimated asset lives will be determined in the year that MRP commences and may not subsequently be revised. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the GMCA. However, the GMCA reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Capital and Revenue Grants and Contributions

Revenue Grants and Contributions
Revenue grants and contributions received by the Authority can either be classified as non-specific for general purposes or specific for use in relation to a service and/or function. Where conditions have been met revenue grants and contributions are credited to the relevant service line within Cost of Services. When the expenditure relating to specific grants has not been incurred, the Authority has elected to make a contribution equivalent to the unspent amount of grant to an earmarked reserve. This reserve will be released in future financial years when the expenditure to which the grant relates is incurred.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital Grants and Contributions
Where conditions have been met, capital grants and contributions are credited to Taxation and Non Specific Grant Income in the Comprehensive Income and Expenditure Statement. The balance of the grant or contribution that has not been used to finance expenditure is transferred to the Capital Grants Unapplied Account via the Movement in Reserves Statement. The amount of grant or contribution that has been used to finance expenditure is transferred to the Capital Adjustment Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account when they have been applied to fund capital expenditure.

Grants and Contributions relating to Revenue Expenditure funded by Capital under Statute (REFCUS)
Where conditions have been met, grants and contributions to fund expenditure not attributable to assets owned by the Authority (Revenue Expenditure Funded by Capital

Under Statute) are credited to the non-specific income line within the Cost of Services. They are then transferred to the Capital Adjustment Account when the related expenditure has been incurred via the Movement in Reserves Statement. If the grant is not spent it goes to the Capital Grants Unapplied Reserve via the Movement in Reserves Statement. When spent, it is transferred from the Capital Grants Unapplied Reserve to the Capital Adjustment Account.

Any capital grants and contributions that have been received from the Department for Transport which relate to non-GMCA projects are credited to the Creditors Account. When a grant and contribution is paid to the relevant District Authority the Creditors Account is reduced accordingly.

Local Taxation

Council Tax

Following the abolishment of GM Fire and Rescue Authority and GM Office for the Police and Crime Commissioner, the Mayor now collects funds via the Mayoral General Fund and the Mayoral Police Fund respectively.

In their capacity as billing authorities the District Councils of Greater Manchester act as agents: they collect and distribute council tax income on behalf of the major preceptors and themselves. The cash collected by the billing authorities from council tax debtors belongs proportionately to the billing authorities and the major preceptors. There will therefore be a debtor/creditor position between the billing authorities and GMCA to be recognised since the net cash paid to GMCA in the year will not be its share of cash collected from council taxpayers.

NNDR

From 1 April 2013 the District Councils as billing authorities of Greater Manchester have acted as agents; they have collected National Non Domestic Rates (NNDR) income on behalf of Central Government, the GMCA and themselves.

The NNDR income distributed to each of the parties is the amount after deducting an allowance for the District Councils cost of collection. The NNDR cash collected by the billing authorities through the national scheme belongs proportionately to Central Government, the District Council and GMCA; there will therefore be a debtor/creditor position between these parties to be recognised since the net cash paid in the year to each party will not be their share of the cash collected from business ratepayers.

In 2019/20 Greater Manchester continues to be a pilot area for the 100% Business Rates Retention Scheme and the relevant shares of NNDR income for 2019/20 are Central Government (0%), GM District Councils (99%) and GMCA (1%).

For both council tax and NNDR, the income reflected in the CIES in 2019/20 is the GMCA's share of the income relating to that year. However, the amount of council tax / NNDR income that can be credited to the General Fund for the year is determined by statute and may be different from the accrued income position shown in the CIES. An adjustment is made via the Movement in Reserves Statement for the difference between the income due under proper accounting practice and the income per statute.

Financial Assets
Financial Assets such as investments (excluding those in companies included in the Authority's group accounts) and debtors are classified into three types; amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL).

The categorisation of financial assets into these types is dependent on the reason for holding the assets, which can be to collect cash flows, to sell assets or achieve objectives by other means.

Financial assets are introduced onto the balance sheet at fair value when the Authority becomes a party to any contractual provision.

Amortised Cost
These assets relate to financial instruments where the amounts received are solely principal and interest and they are held in a hold to collect business model (e.g. investments of surplus cash with the government's debt management office or loans to third parties).

The interest received on these assets is measured using the Effective Interest Rate model.

Fair Value through Other Comprehensive Income (FVOCI)
These assets relate to financial instruments where the amounts received are solely principal and interest but they are held to collect cash and have the ability sell the assets (e.g. money market funds).

The interest received on these assets is measured using the Effective Interest Rate model.

Changes in the fair value of these assets are charged to Other Comprehensive Income and Expenditure. Cumulative gains and losses are charged to the surplus / deficit on provision of services when they are disposed of.

Under capital accounting regulations where these assets were treated as capital expenditure the gain or loss are reversed to an unusable reserve - the Financial Instruments Revaluation.

Fair Value through Profit and Loss (FVPL)
These assets relate to financial instruments where the amounts received are not principal and interest (e.g. equity investments).

Charges in fair value are charged to the surplus / deficit on the net provision of services as they occur.

Under capital accounting regulations where these assets were treated as capital expenditure the gain or loss is reversed through the Movement in Reserves

Statement and charged to the Capital Adjustment Account, which is an unusable reserve.

An equity instrument that has been classed as FVPL can be designated as FVOCI if it is not held for trading (e.g. a strategic investment). Once this designation has been made it cannot be reversed. This designation would mean that any gains and losses would be held in the Financial Instruments Revaluation Reserve.

Credit loss
The Authority will recognise a loss allowance for expected credit losses, if applicable, on assets where cash flows are solely principal and interest (i.e. financial instruments measured at amortised cost or FVOCI). This does not apply where the counterparty is central government or another local authority.

At each year end, the loss allowance for a financial instrument is calculated as equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

If at the year end, the credit risk has not increased significantly since initial recognition the loss allowance is measured at an amount equal to twelve month expected credit losses.

Where the financial asset was treated as capital expenditure, any losses will be reversed via the Movement in Reserves Statement to the Capital Adjustment Account.

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest. The interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

For Lender Option Borrower Option (LOBO) loans, the effective interest rate has been calculated over the life of the loan. This is an average and differs from the amounts actually paid in the year. The difference between the calculated interest charge and interest paid has been adjusted in the carrying amount of the loan and the amount charged in the Comprehensive Income and Expenditure Statement is the effective interest rate for the life of the loan rather than the amount payable per the loan agreement. A statutory over-ride allows the reversal of this difference through the Movement in Reserves Statement in order to charge the actual interest payable to the General Fund.

Impairment of non-financial assets
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Value Added Tax (VAT)
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Reserves and Balances
The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus and Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and they do not represent usable resources for the Authority.

The Authority produces memorandum accounts to hold the ring fenced reserves and balances relating to the Mayoral General Fund and the Mayoral Police Fund.

Revenue
Revenue is a sub-set of income and is defined as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue has been recognised but cash has not been received or paid, a debtor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Rentals receivable under operating leases and secondary rentals received and retained by the group under finance leases are credited to income as they arise. Any premia or incentives within the lease are recognised within income on an equal basis over the term of the lease.

Contingent assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Events after the Reporting Period
Events after the reporting period are those events that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

Where these provide evidence of conditions in existence at the balance sheet date, the amounts recognised in the accounts are adjusted.

Where these are indicative of conditions that arose after the balance sheet date the amounts in the accounts are not adjusted. This is known as a non-adjusting event and is disclosed as a note to the accounts.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Interests in Companies and Other Entities - Group Accounts
The Authority is required to produce group accounts where it has interests in subsidiaries, associates and/or joint ventures unless interest is considered not material. The group boundary is dependent upon the extent of the Authority's control or significant influence over the entity, which is based on the requirements of IFRS10, IFRS11 and IAS 28.

Inclusion in the Authority group is dependent upon the extent of the Authority's interest and power to influence an entity. The Authority is considered to control an entity if it has power over the entity, exposure or rights to variable returns from its interest with the entity and the ability to use its power to affect the level of returns. The determining factor for assessing the extent of interest and power to influence is either through ownership of an entity, or representation on an entity's board of directors/trustees.

An assessment of all the Authority's interests has been carried out during the year, in accordance with the Code of Practice, to determine the relationships that exist and whether they should be included within the Authority's group accounts. As such, Group accounts have been prepared for the Authority to include Transport for Greater Manchester, Greater Manchester Police and North West Evergreen Holdings LP.

Discretionary Benefits
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies that are applied to the Local Government Pension Scheme.

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year in which employees render service to the Authority.

In 2018/19, the Authority adopted a policy of not accruing for employee benefits if the value of the adjustment was considered immaterial. An annual assessment will be made each year and should this result in an adjustment that would be material then these benefits will be accrued.

For the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees could carry forward into the next financial year:

- An accrual will be introduced at the wage and salary rates applicable in the following accounting year, being the period in which the employee will take the benefit. The accrual will be charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement, so that holiday benefits are charged to the General Fund in the financial year in which the holiday absence occurs.

Private Finance Initiative (PFI)
PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under these PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on his Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. When establishing the recognition point of an asset, the Authority considers when probable and future benefits of the asset will flow to it and the extent to which the cost of the asset can be reliably measured.

PFI and similar contracts recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operators each year are analysed into the following elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- **Finance costs** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **Contingent Rents** – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **Lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

The Authority is deemed to control the services provided under its PFI arrangement for the Stretford Fire Station site. The Authority also has a PFI contract for the construction and maintenance of 17 police stations across Greater Manchester whereby the contractor will operate and service the stations for 25 years after which ownership will revert to the Mayor of Greater Manchester for nil consideration. The accounting policy for PFI's and similar arrangements has been applied to these arrangements and the assets are recognised as Property, Plant and Equipment in the Balance Sheet.

Appendix B

2 Critical Accounting Judgements

In applying the accounting policies set out in the notes to the accounts, the Authority has had to make certain judgements about complex in year transactions or those involving uncertainty about future events. The following are significant management judgements made in applying the accounting policies of the Authority that have the most significant effect on the Statement of Accounts. Material estimation uncertainties are described in the notes to the accounts.

Government Funding

There is a degree of uncertainty about future levels of some of the major funding streams for parts of the Authority and Local Government as a whole. The Authority has had to consider a range of options on how to continue to provide some elements of its services with a reduced level of funding.

As part of these deliberations, a possible reduction in its asset base across the Police and Crime and Fire and Rescue functions has been considered. However, there is not currently a sufficient indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Private Finance Initiative (PFI)

The Authority has entered into Private Finance Initiative (PFI) agreements for the Stretford Fire Station and 17 new Police Stations across 16 sites. The ownership of the buildings is determined by who holds the balance of control in line with accounting standards. The Authority considers the buildings and equipment associated with these sites should be included on its Balance Sheet because:

- The reversion clause within the PFI agreement results in the Authority having a residual interest in the buildings at the end of the agreement;
- The services provided and the use of the building is controlled by the Authority through the PFI agreement; and
- The PFI agreement is between the PFI contractor and the Authority.

Former GMWDA Landfill Tax Claim

The GMCA has instructed Price Waterhouse Coopers Legal LLP (PWC) to act on its behalf in a claim in relation to landfill tax paid over to HM Revenue and Customs. That claim has been lodged with the Courts, and if successful would see significant recovery of landfill tax being returned to the GMCA. The claim is one of a series of cases, which are taking place in relation to this area of interpretation of the law, and the GMCA action remains ‘stayed’, whilst a test case progresses through the Courts system.

Given that clarification of this complex area of law is awaited by way of a legally binding decision, which may be some distance in the future, it is considered that at this stage in the legal proceedings and given the uncertainty of the outcome of the claim, the claim does not meet the recognition criteria as an asset or a contingent asset for inclusion in the accounts at 31 March 2020.

Group Accounts Considerations
A review of the entities related to the Authority in 2019/20 has taken place and the conclusions are provided below:

Chief Constable of Greater Manchester Police (GMP)
GMP is included in the Authority's group accounts from 8 May 2017. The Mayor is responsible for the formal oversight of GMP, including provision of all funding, budget setting, performance scrutiny and strategic policy development, and for ensuring GMP is run efficiently and effectively. Operational decision-making on day-to-day policing including the employment of police staff remains the responsibility of the Chief Constable.

Under the legislative framework and local arrangements, the Authority under sole instruction from the Mayor, is responsible for the finances of the Mayoral Police Fund including assets, liabilities and reserves. The Authority has responsibility for entering into contracts and establishing the contractual framework under which the Chief Constable's officers and staff operate. The Authority receives all income and funding and makes all the payments for the policing activity from the GMCA Police Fund. The Police Fund is disclosed in the supplementary notes to the main GMCA accounting statements.

Transport for Greater Manchester (TfGM)
TfGM is to continue to be included in the Authority's group accounts. The Authority and/or the Mayor sets local public transport policy and is responsible for deciding how funds are spent on supporting and improving Greater Manchester's public transport network. The decisions of the Authority and/or the Mayor are implemented by TfGM and TfGM is responsible for implementing the policies of the Authority. TfGM's net expenditure after taking into account all sources of income and expenditure is financed by way of a Revenue Grant from the Authority. TfGM's corporate objectives are derived from the Authority's policy priorities, stakeholder consultation and its principal statutory obligations. Strategic objectives and targets are set out in the Authority/TfGM Business and Performance Plan.

For information, details of transactions with the TfGM will be included within the related parties note.

Greater Manchester Fund of Funds Limited Partnership (FoFLP)
In November 2016 the authority established FoFLP to act as a holding fund for ERDF funding. In May 2017, the fund received £15 million funding from ERDF and £0.5 million from the Authority. FoFLP will invest in sub funds that seek to support the shift towards a low carbon economy and for research and innovation. The fund has secured an additional £45 million ERDF funding, £15m of which was drawn down in March 2020. On the grounds of materiality, it has been decided that **FoFLP will be included** in the group accounts.

NW Evergreen Holdings Limited Partnership (NWEH)

NWEH is to continue to be included in the Authority's group accounts. In September 2016 the Authority established NWEH to act as a holding fund for earlier tranches of ERDF funding. The Fund has received over £60 million of funding from ERDF and will invest in sub funds that provide opportunities to identify, research and negotiate investment opportunities in properties in the North West of England.

NW Fire Control Company

The NW Fire Control Limited Company (NWFCC) operates a regional control centre based in Warrington. The company has four equal partners namely: Greater Manchester Combined Authority, Cheshire, Cumbria County Council and Lancashire Fire and Rescue Authorities.

NWFCC became operational during 2014/15 and it meets with the definition of a joint operation for group accounts purposes. However, on the grounds of immateriality it has been decided that **NWFCC is not to be included** in the group accounts.

Commission for New Economy Limited (CNE)

CNE is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included CNE in its group accounts. The company is no longer trading following a decision to wind the company up in December 2018. On the grounds of immateriality it has been decided that **CNE is not to be included** in the group accounts.

Greater Manchester Accessible Transport Limited (GMATL)

GMATL is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included GMATL in its group accounts. The balance sheet value is approximately £2 million. On the grounds of immateriality, it has been decided that **GMATL is not to be included** in the group accounts.

Manchester Investment and Development Agency Service (MIDAS)

MIDAS is a private company limited by guarantee without share capital. The Authority is the person with significant control and has previously included MIDAS in its group accounts. The balance sheet value is approximately £2.5million. On the grounds of immateriality, it has been decided that **MIDAS is not to be included** in the group accounts.

HIVE Homes

HIVE Homes is a joint venture with 10 Registered Housing providers and has been incorporated to acquire sites in Greater Manchester and then develop them for sale as residential use. From March 2019 the Authority has a 20% share within the company, however to date £125,000 has been invested. On the grounds of immateriality, it has been decided that **HIVE Homes will not be included** in the group accounts.

GREATER MANCHESTER COMBINED AUTHORITY

Audit Committee

Date: 30th June 2020

Subject: Capital Strategy 2020/21

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

This report sets out the Capital Strategy for 2020/21 and incorporates the Capital Programme 2020/21 and the Treasury Management Strategy Statement 2020/21.

RECOMMENDATIONS:

The Audit Committee is requested to:

1. Note the contents of the report and recommend its approval to the Greater Manchester Combined Authority.

CONTACT OFFICERS:

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Treasurer – Greater Manchester Combined Authority

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Equalities Implications:

The equalities impact of each project will be considered prior to commencement of works.

Climate Change Impact Assessment and Mitigation Measures –

Risk Management:

Each new project will be subject to a robust process and will encompass its own risk assessment prior to commencement of works.

Legal Considerations:

This report fulfils the statutory requirements….

Financial Consequences – Revenue:

The implications of these strategies and programmes have been incorporated into the Budget Report and the Medium Term Financial Strategy.

Financial Consequences – Capital:

The implications of these strategies and programmes have been incorporated into the Budget Report and the Medium Term Financial Strategy.

Number of attachments to the report: None

Comments/recommendations from Overview & Scrutiny Committee

BACKGROUND PAPERS:

GMCA Capital Programme 2019/20 – 2022/23, GMCA, 14th February 2020

GMCA Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy 2020/21, Audit Committee, 21st January 2020

<table>
<tr><td colspan="2">TRACKING/PROCESS</td><td colspan="2"></td></tr>
<tr><td colspan="3">Does this report relate to a major strategic decision, as set out in the GMCA Constitution</td><td>Yes / No

No</td></tr>
<tr><td colspan="4">EXEMPTION FROM CALL IN</td></tr>
<tr><td colspan="2">Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?</td><td colspan="2"></td></tr>
<tr><td>GM Transport Committee</td><td colspan="2">Overview & Scrutiny Committee</td><td rowspan="2"></td></tr>
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1. INTRODUCTION/BACKGROUND

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to approve and publish an annual Capital Strategy. The Capital Strategy provides:

a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
b) an overview of the management of associated risks; and
c) the implications for future budgets and financial sustainability.

1.2 The Strategy sets the framework for all aspects of the GMCA's capital and investment expenditure; including planning, outcomes, prioritisation, management, funding and repayment. The Strategy informs the GMCA's Medium Term Financial Strategy (MTFS) and Greater Manchester Strategy and has direct links to GMCA's Treasury Management and Investment Strategy.

1.3 The strategy gives a clear and concise view of how the GMCA determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans, but instead sit above those plans and reference them to allow those seeking more detail to know where to find it.

1.4 The Capital Strategy covers the following key topics:

a) GMCA priorities;
b) Governance, reporting and scrutiny arrangements;
c) The Capital Programme;
d) Asset management;
e) Non-Treasury Investments / Commercial Activities;
f) The approach to borrowing, the revenue consequences for setting aside amounts to repay debt and the financial and prudential indicators required by the Prudential Code as set out in the Treasury Management Strategy Statement (TMSS); and
g) The approach to risk.

2. CORPORATE PRIORITIES

2.1 The Capital Strategy maintains a strong link to the vision and aims in the Greater Manchester Strategy (GMS). The GMS vision is to make Greater Manchester one of the best places in the world to grow up, get on and grow old.

2.2 This will be delivered by 10 key priorities:

a) Children starting school ready to learn
All GM children starting school ready to learn

b) Young people equipped for life
Reduced number of children in need of safeguarding and all young people in education, employment or training following compulsory education

c) Good jobs, with opportunities to progress and develop
Increased number of GM residents in sustained, 'good' employment and improved skills levels

d) A thriving and productive economy in all parts of Greater Manchester
Improved economic growth and reduced inequality in economic outcomes across GM places and population groups and increased business start-ups and inward investment, and improved business performance

e) World-class connectivity that keeps Greater Manchester moving
Improved transport networks and more sustainable GM neighbourhoods, reduced congestion and future-proofed digital infrastructure that fully supports commercial activity, social engagement and public service delivery in GM

f) Safe, decent and affordable housing
High quality housing, with appropriate and affordable options for different groups and no one sleeping rough on GM's streets

g) A green city region and a high quality culture and leisure offer for all
Reduced carbon emissions and air pollution, more sustainable consumption and production, and an outstanding natural environment. Increased local, national and international awareness of, pride in, and engagement with GM's culture, leisure and visitor economy

h) Safe and strong communities
People feeling safe and that they belong, reduced crime, reoffending and antisocial behaviour, and increased support for victims and more sustainable GM neighbourhoods

i) Healthy lives, with quality care available for those that need it
More people supported to stay well and live at home for as long as possible, improved outcomes for people with mental health needs and reduced obesity, smoking, alcohol and drug misuse

j) An age-friendly city region
People live in age-friendly neighbourhoods, inclusive growth and reduced inequality across GM places and population groups and reduced social isolation and loneliness

2.2 There are three key strategic documents that provide the frameworks for future investment and translate the ambitions set out in the Greater Manchester Strategy into new development and growth for the next two decades. These are the Greater Manchester Spatial Framework, the Greater Manchester Transport 2040 Implementation Plan and the Greater Manchester Housing Strategy.

3. GOVERNANCE FRAMEWORK

3.1 The GMCA Capital Programme involves the expenditure and financing of £1,053m of capital schemes over the period 2020/21 to 2023/24. It is important therefore that the risks surrounding the delivery and financing of the capital projects are understood and appropriate governance arrangements are in place. For GMCA these governance arrangements are:

a) The Capital Strategy itself which is scrutinised by Audit Committee prior to approval by GMCA;
b) The GMCA which approves the Capital Programme and capital schemes;
c) The Corporate Issues and Reform Overview and Scrutiny Committee which has the remit for budget oversight and other financial matters is responsible for scrutinising the Capital Programme;
d) The GMCA Senior Management Team (SMT) which has overall responsibility for the management and monitoring of the Capital Programme;
e) The Constitution which sets out the powers of Officers with regard to capital expenditure;
f) The GMCA receives quarterly capital monitoring reports which identifies any variation to the approved programme;
g) All capital expenditure follows the GMCA's financial accounting framework which ensures expenditure is treated in a manner compliant with accounting convention / statutory guidance; and
h) The Capital Programme is subject to both internal and external audit scrutiny

4. CAPITAL PROGRAMME

4.1. Schemes are included in the Capital Programme with the aim of delivering the 10 key priorities of Greater Manchester. In February 2020 the GMCA approved the 2019/20 – 2022/23 Capital Programme. This is shown below along with the along with the associated financing.

	Estimate 2019/20	Estimate 2020/21	Estimate 2021/22	Estimate 2022/23
	£m	**£m**	**£m**	**£m**
Capital Expenditure	462.601	433.781	388.378	230.977
Financed by:				
Capital receipts	(45.210)	(95.979)	(33.282)	(17.000)
Revenue Contribution	(15.452)	(34.331)	(2.590)	(2.590)
Grants and other contributions	(156.732)	(184.892)	(135.494)	(89.441)
Total financing	(217.394)	(315.202)	(171.366)	(109.031)
Net financing need for the year	**245.207**	**118.579**	**217.012**	**121.946**

4.2. The Capital Programme is subject to regular review with quarterly monitoring reports presented to the GMCA. Estimates of capital grant allocations in the financing section above are known to be subject to variation.

5. ASSET MANAGEMENT

5.1. Chaired by the Deputy Mayor for Policing and Crime, the Estates Strategy Group (ESG) adopts an integrated approach to share best practice and optimise all assets to ensure best use of public money.

5.2. The ESG oversees a broad range of assets to ensure GMCA maintains a fit-for-purpose estate that is responsive to change and enables the delivery of organisational objectives. The focus of the ESG is to:

a) Drive improvement in the asset management of the GMCA's property, utilising it to meet the GMS priorities and targeting resources across the GMCA;
b) Oversee, through the GM Estates Strategy, the strategic management of the whole of the GMCA estate and how it can work constructively with its partners;
c) Overseeing and managing investment programmes within the GMCA; and
d) Managing strategic property asset related risks.

5.3. Assets no longer required will be disposed of and the capital receipt used to fund the capital programme. The Constitution sets out the powers of Officers with regards to the disposal of assets.

6. NON TREASURY MANAGEMENT AND INVESTMENTS

6.1. Growing Places Fund and Regional Growth Fund

6.1.1 The Growing Places Fund (GPF) originally secured by the GM in 2012/13 totalled £34.5m of capital grant funding which is being used to provide up front capital investment in schemes. The GPF has three overriding objectives:

a) to generate economic activity in the short term by addressing immediate constraints:
b) to allow Local Enterprise Partnerships (LEPs) to prioritise infrastructure needs, empowering them to deliver their economic priorities; and
c) to establish sustainable recycled funds so that funding can be reinvested.

6.1.2 The Regional Growth Fund (RGF) of £65m was secured by GM through two rounds of bidding for UK Central Government funding in 2012/13 and 2013/14. The RGF has supported eligible projects and programmes raising private sector investment to create economic growth and lasting employment, with over 6,000 jobs being either created or safeguarded.

6.1.3 The original GPF and RGF allocations have now been fully committed and the GMCA is in the recycling phase. Between 2018/19 and 2021/22 it is currently forecast that £55m will be recycled back out to businesses using capital receipts from both GPF and RGF. Given that both investment funds were funded through government grant there are no direct impact on the revenue budget should any loans default.

6.1.4 There is likely to be opportunities to passport similar property investments using GMCA's own funds (prudential borrowing) to allow freeing up of GM wide Evergreen Funds for further investments.

6.2 Housing Investment Fund (HIF)

6.2.1 The Greater Manchester Housing Investment Fund has been designed to accelerate and unlock housing schemes. It will help build the new homes to support the growth ambitions across Greater Manchester.

6.2.2 Projects greater than £2m are recommended for approval to the GMCA by the Gateway Panel who review all the detailed information. This results in two separate committees reviewing the detailed proposals. Loans for less the £2m are subject to review and approval by the Credit Committee.

6.3 Loans Utilising Prudential Borrowing

6.3.1 The GMCA does not make commercial investments, to the extent that it does not make investments purely to make a financial return. Where the GMCA has and does make capital investments, it is for strategic or regeneration purposes.

6.4 Greater Manchester Loan Fund (GMLF)

6.4.1 The GMLF was established in June 2013 in response to market constraints which significantly reduced the availability of debt finance.

6.4.2 The GMLF was set up to provide debt finance of between £0.1m and £0.5m to small and medium enterprises in the Greater Manchester region, with the objective of generating business growth, creating and safeguarding jobs. A maximum of £10m has been approved for use by the Fund.

6.5 Protos Finance Limited

6.5.1 In order to create capacity, GMCA is being asked to consider the purchase of a £12.1m loan committed by Evergreen to Protos Finance Limited. Protos Finance Limited is a subsidiary of Peel established to deliver the development of an industrial site in Cheshire for a variety of uses including waste to energy, biomass and environmental technology facilities. This will free up resources in the Evergreen Fund and allow it to further invest in Greater Manchester.

7 BORROWING, REVENUE CONSEQUENCES AND THE TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)

7.1 Capital Financing

7.1.1 The net financing need in paragraph 4 is after application of capital receipts, capital grants and revenue contributions. Wherever possible the Capital Programme will utilise and maximise external funding provided by central government or other third party sources.

7.1.2 The Capital Programme is reliant on prudential borrowing totalling £457.5m between 2020/21 and 2022/23. This method of financing involves the GMCA borrowing from external sources and results in additional revenue costs of interest and borrowing plus a statutory charge known as the Minimum Revenue Provision. All prudential borrowing is undertaken in full compliance with the CIPFA Prudential Code which requires authorities to approve their own borrowing limits for the year with indicators to measure the affordability and sustainability of the Capital Programme.

7.2 Treasury Management Strategy Statement (TMSS)

7.2.1 The TMSS and the Capital Strategy are closely linked. The Capital Programme identifies the borrowing need of the GMCA whilst the TMSS considers how the GMCA will manage these cash requirements. This may involve arranging loans and taking decisions on whether these loans should be short or long term having regard to prevailing and forecast interest rates. The TMSS will also consider the GMCA's cash surpluses and how these should be managed. At times it may be beneficial to defer borrowing and use these cash surpluses to avoid borrowing and thereby saving interest expenditure.

7.2.2 The GMCA has successfully pursued a policy of internal borrowing using its cash surpluses over the last few years whilst keeping interest rates under review for signs they may increase. In times of increasing interest rates the GMCA may borrow early and then invest the surplus cash until it is required.

7.3 Borrowing Limits

7.3.1 At the end of 2019/20 it is forecast that the GMCA's external debt will be £1,619m (including PFI liabilities) and this is forecast to increase to £1,739m by the end of 2022/23 based on the borrowing needs of the Capital Programme.

7.3.2 The Prudential Code requires the GMCA to set two limits for external debt each year.

a) The Authorised Limit – this represents the maximum limit for external debt, including PFI liabilities, taking account of fluctuations in day to day cash requirements.

b) The Operational Boundary – this is the limit beyond which external debt is not normally expected to exceed. The GMCA is currently under borrowed as a result of pursuing an internal borrowing policy and thereby reducing financing costs.

7.3.3 Based on the forecast Capital Programme, the limits in the TMSS are:

	Estimate 2019/20	**Estimate 2020/21**	**Estimate 2021/22**	**Estimate 2022/23**
	£m	**£m**	**£m**	**£m**
Authorised Limit	2,407.503	2,595.252	2,629.969	2,769.670
Operational Boundary	2,298.071	2,477.286	2,510.425	2,643.776

8 APPROACH TO RISK

8.1 Risk is inherent with any investment or commercial activity and whilst it cannot be entirely eliminated the GMCA will adopt a strategic approach to risk management. The GMCA's approach to risk is to balance risk with the achievement of its ten priorities.

8.2 There is a clear distinction between capital investments, where the achievement of strategic aims will be considered and treasury management investments which are made for the purpose of cash flow management. The risk appetite for these two distinct types of investment may differ given the difference in expected outcomes**.**

8.3 For treasury management investments and debt the GMCA's risk appetite is extremely low with security of funds the primary concern. The GMCA seeks to invest surplus cash in instruments with high credit quality and for relatively short periods and to have debt options available at all times.

9 KNOWLEDGE AND SKILLS

9.1 Both the Capital Programme and the Treasury Management Strategy are managed by teams of professionally qualified, local government experienced accountants. Officers maintain and develop their knowledge through Continuous Professional Development and by attending courses offered by CIPFA and other sector experts. The GMCA use Link Asset Services to provide advice on treasury management issues.

9.2 The Treasurer has overall responsibility for ensuring the proper management of the GMCA's capital programme, assets and treasury management activities. The Treasurer is also a professionally qualified accountant.

9.3 The Audit Committee is the body that scrutinises all aspects of the Capital Strategy. Internal and external training is available to members of the committee to ensure they have the relevant skills, knowledge and understanding to undertake this role.

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GMCA Audit Committee – Schedule of Business 2020/21

Agenda Item	June 2020 (AGM)	August 2020 TBC	October 2020 TBC	January 2021	April 2021	Lead
Statutory and Corporate Governance						
Appointment of Chair	✓					Members
Confirmation of Membership	✓					Chair
Annual Declarations of Interest	✓					Chair
Declarations of Interest	✓	✓	✓	✓	✓	Chair
Minutes of previous meeting	✓	✓	✓	✓	✓	Chair
Minutes of Joint Audit Panel	✓	✓	✓	✓	✓	Chair
Annual Governance Statement (Draft)		✓				Treasurer and Monitoring Officer
Annual Governance Statement (Final)			✓			Treasurer and Monitoring Officer
Unaudited Draft Statement of Accounts		✓				Treasurer
Final Audited Statement of Accounts			✓			
Review of Audit Committee Terms of Reference	✓					Chair
Review and update of annual Schedule of Business	✓					Chair / Head of Audit and Assurance
Private meeting with Internal Auditors					✓	Chair / Head of Audit and Assurance
Private meeting with External Auditors	✓					Chair / External Audit
Annual report of Audit Committee					✓	Audit Committee Chair
Risk Management						
Corporate Risk Register full review (annual)				✓		Treasurer and Head of Audit and Assurance
Corporate Risk Register update	✓	✓	✓		✓	Treasurer and Head of Audit and Assurance

Agenda Item	June 2020 (AGM)	August 2020 TBC	October 2020 TBC	January 2021	April 2021	Lead
Risk deep-dives			✓*	✓*	✓*	Risk owners
Counter Fraud Activities			✓			Treasurer and Head of Audit and Assurance
Internal Audit						
Internal Audit Plan	✓				✓	Head of Audit and Assurance
Review and update of Internal Audit Charter	✓				✓	Head of Audit and Assurance
Internal Audit Progress Report		✓	✓	✓	✓	Head of Audit and Assurance
Internal Audit Opinion and Annual Report	✓					Head of Audit and Assurance
Audit Recommendations Monitoring		✓	✓	✓	✓	Head of Audit and Assurance
Review of Effectiveness of Internal Audit	✓				✓	Report of Treasurer, prepared by Head of Audit and Assurance
Annual Whistleblowing Report	✓				✓	Report of Treasurer, prepared by Head of Audit and Assurance
External Audit						
Audit Strategy Memorandum				✓		External Audit
Annual Audit Letter			✓			External Audit
External Auditor Enquiry Letters Draft Responses	✓					Treasurer, Chair
External Audit Progress Report	✓		✓		✓	External Audit
Final Statement of Accounts – Report of the External Auditor			✓			External Audit

Agenda Item	June 2020 (AGM)	August 2020 TBC	October 2020 TBC	January 2021	April 2021	Lead
Private meeting with External Auditors			✓			External Audit
Financial Reporting						
GMCA Treasury Management Annual Report	✓					Treasurer
Accounting policies and critical judgements					✓	Treasurer
Treasury Management Strategy	✓				✓	Treasurer

* Risk deep-dives to be undertaken in private meetings

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