Audit Completion Report

Greater Manchester Combined Authority

Year ending 31 March 2020

MAZARS

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MAZARS

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18 January 2021

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 30 June 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Authority was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. As reported to the last meeting of the Audit Committee, issues identified during the audit in relation to the valuation of PPE meant it was not possible to conclude the audit in advance of 30 November. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07795 506766.

Yours faithfully

Mark Dalton
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Greater Manchester Combined Authority ('the Authority') for the year ended 31 March 2020, and forms the basis for discussion at the Audit Committee meeting on 22 January 2021.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Valuation of property, plant and equipment; and
- Valuation of defined benefit pension liabilities.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the HMICFRS's inspection report (December 2020) on the service provided to victims of crime by Greater Manchester Police. Further detail is included in section 5 of our report. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO following completion of the audit. We will report the outcome of this work through our regular progress reports to Audit Committee.

Wider powers

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 to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2. We have not received any questions or objections relating to the 2019/20 accounts.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Reserves	●	Review of the revised Movement in Reserves Statement and associated notes following audit adjustments to other areas of the financial statements.
Property, Plant and Equipment	●	Finalisation of our testing of property, plant and equipment valuations following an audit adjustment to the valuation of the Authority's waste assets.
Financial instruments	●	Review of the Authority's revised financial instruments disclosures following amendments made during the course of the audit.
Group accounts	●	Completion of our work on the Authority's group consolidation.
Going concern	●	Review of management's updated going concern assessment covering the period 12 months from the date of signing the audited accounts.
Audit review	●	The outstanding work noted above will be subject to Manager and Partner review prior to concluding the audit.
Post balance sheet events review	●	We will update our review of post balance sheet events disclosures up to the date of signing our audit report
Signed financial statements and letter of representation	●	We will obtain copies of the signed financial statements and letter of representation prior to concluding our audit.

Status

- ● Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit for the single entity accounts at £25m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £27m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.81m based on 3% of overall materiality.

2. EXECUTIVE SUMMARY (CONTINUED)

Overview of our group audit approach

Our Audit Strategy memorandum provided details of our intended group audit approach, including our initial assessment of group materiality. The table below confirms the approach we have taken to auditing the Authority's consolidated financial statements.

Entity	Nature of entity audit	Auditor	Description of audit procedures undertaken on the component	Changes to audit approach
Greater Manchester Combined Authority (single entity)	NAO Code audit	Mazars LLP	Full-scope audit procedures and review of consolidation process	None
Chief Constable of Greater Manchester	NAO Code audit	Mazars LLP	Full-scope audit procedures and review of consolidation process	None
Transport for Greater Manchester	NAO Code audit	Mazars LLP	Full-scope audit procedures and review of consolidation process	None
NW Evergreen Holdings Limited Partnership	Statutory audit	Kreston Reeves LLP	Targeted procedures on the company's debtor balances including agreement to third party evidence of balances owed and review of consolidation process	None
Greater Manchester FoF Limited Partnership	Statutory audit	Kreston Reeves LLP	Targeted procedures on the company's cash balances including testing of the year end bank reconciliation and obtaining bank letters to support balances recorded on the group balance sheet, and review of consolidation process	Newly consolidated

Group materiality

We set materiality at the planning stage of the audit at £35m using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £31.5m, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee, at £0.9m based on 3% of overall materiality.

The proportion of the group subject to full-scope audit procedures is as follows:

- Revenue – 99%
- Expenditure – 99%
- Net Assets – 99%

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 11 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Our work on management override of controls is complete and there are no issues arising to bring to the Committee's attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of Property, Plant and Equipment

Description of the risk

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.

How we addressed this risk

In relation to the valuation of property, plant & equipment we have:

- Critically assessed the Authority's valuer's scope of work, qualifications, objectivity and independence to carry out the Authority's programme of revaluations;
- Considered 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;
- Reconciled the valuer's report to the fixed asset register and ensured that the values per the report have been correctly input, in total, to the asset register;
- Critically assessed 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;
- Reviewed the basis of valuation and confirmed that this is appropriate and agrees to the asset register;
- Critically assessed 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;
- Assessed the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; and
- Critically assessed 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

Due to the specialist nature of the Authority's waste assets we engaged an external valuations expert to review the methodology used in these valuations.

We also employed an external valuations expert to consider the impact of the 'material uncertainty' disclosure. Based on their work, we are satisfied the valuation can still be relied upon. During the course of the audit we obtained up-to-date market data and compared this to the Authority's asset valuations. This confirmed the valuations were in line with wider market data.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Audit conclusion
Valuation of Property, Plant and Equipment	Our review of the Authority's property, plant and equipment assets remains in progress. The work completed by our valuation expert on the Authority's waste asset valuations identified a number of errors which when combined were significant in value. Management discussed these errors with their own valuations expert and obtained a revised valuation in December 2020. Our valuations expert has confirmed the revised valuations are within a reasonable range. The effect of these errors is to reduce the valuation of the Authority's waste assets by £15.7m. Due to the significant value of the errors management have also considered whether a prior period adjustment is required. As the errors were not material in prior years, no adjustment has been made to the comparative figures. We have assessed the Authority's rolling programme of valuations and confirmed this is compliant with the requirements of the CIPFA Code. Our review of relevant market data did not indicate that assets not revalued in 2019/20 were materially misstated. The Authority has included relevant disclosures in relation to the material valuation uncertainties highlighted by the valuers in Note 3. Our auditor's report includes an 'Emphasis of Matter' paragraph which draws readers' attention to the appropriate disclosures. This does not constitute a modification to our audit opinion. There are no other matters to bring to management's attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
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.

How we addressed this risk

- Critically assessed the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson and the Firefighters Pension Scheme Actuary, the Government Actuary Department (GAD);
- Liaised with the auditors of the Greater Manchester Pension Fund to understand the work they have completed on the asset valuation and to gain assurance that the controls in place at the Pension Fund are operating effectively. This includes 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;
- Reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office;
- Agreed the data in the IAS 19 valuation report provided by the Funds Actuaries for accounting purposes to the pension accounting entries and disclosures in GMP's financial statements;
- We confirmed, given the extended timetable for producing draft accounts that the Authority had obtained revised actuarial valuations based on 12 month data rather than 10 month data as would have been the case pre-COVID.

Audit conclusion

During the course of the audit a number of issues arose in relation to the valuation of the Authority's defined benefit liability which required detailed consideration by management and the audit team. These are set out below:

<u>Legal Rulings</u>

Following completion of the draft accounts two legal developments arose in respect of local government pension schemes:

Significant risk

Valuation of Defined Benefit Pension Liability continued

Audit conclusion continued

McCloud Judgement

The first issue related to the McCloud and Sargeant age discrimination cases. In July 2020 HM Treasury launched a consultation on the mechanism that they propose to use in order to remedy the transitional arrangements introduced as part of the 2015 reforms to public service pensions. Management obtained revised calculations from the respective actuaries taking account of the proposed remedy.

This resulted in a reduction in the Authority's pension liability of £24.8m. The financial statements have been amended to take account of this. The McCloud judgement also impacted on the Authority's group pension liability position with a further reduction of £82.3m.

Goodwin Judgement

The second legal development relates to the 'Goodwin' case. Following the Walker v Innospec Supreme Court ruling, the government decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members will, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages.
The Goodwin case brought against the Secretary of State for Education earlier this year highlighted that the changes above may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme, where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor.

The government concluded that changes are required to the Teachers' Pension Scheme to address the discrimination. The government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances. Management considered the impact of this case on the Authority's net defined benefit pension liability through discussions with Greater Manchester Pension Fund and the scheme actuary. The actuary confirmed the case would apply to a small subset of scheme members and the impact on individual employers would be immaterial. On this basis management have not obtained an updated valuation. We are satisfied there is no risk of material misstatement arising.

Impact of COVID-19 on Pension Assets

The Chief Constable of Greater Manchester Police draft accounts were prepared to an earlier timetable to allow consolidation into the Authority's group accounts. As in previous years GMP obtained a valuation of the defined benefit liability using actual information to December 2019 and estimated data to March 2020. Due to the increased market uncertainty this year management obtained an updated valuation report based on full year actual data. The updated report reduced the liability by £13,128k. This has been adjusted in the group accounts.

We have received assurances from the auditor of Greater Manchester Pension Fund over the completeness and accuracy of data passed to the actuary. Through this we were notified of material uncertainty disclosures in relation to the Pension Fund's property investments. As the Authority accounts for a share of these assets they have included disclosures on the material uncertainties in relation to the pension fund's property investment in Note 36.13. We have again referred to these disclosures in the Emphasis of Matter paragraph within our auditor's report. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

Our overall conclusion is that the revised valuation of pension liabilities is materially correct.

2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement

Private Finance Initiative (PFI) scheme

Description of the management judgement

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.

How our audit addressed this area of management judgement

We considered the continued accounting treatment of the PFI scheme assets and liabilities as being in the Authority's financial statements.

Audit conclusion

We are satisfied management's judgements in relation to the accounting for PFI schemes remain appropriate.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority on 31 August 2020 in line with the revised reporting requirements. A full set of working papers was provided alongside the draft accounts. Our audit of the financial statements identified a number of disclosure amendments relating to inconsistencies between notes and errors identified by the finance team following production of the draft accounts. **Recommendation:** We recommend checks are built into the accounts preparation process to prevent these errors occurring in future years.

Significant matters discussed with management

On receipt of the draft accounts we queried the historic classification of the GMP IS Transformation Programme (ISTP) assets which had historically been classified as assets under construction within the property, plant and equipment balance and had been transferred to intangible assets during the course of the year. Management undertook a full review of the assets which made up the total and were able to split the assets between tangible and intangible elements. The prior year comparatives have been restated to reclassify the intangible elements from property, plant and equipment. As part of this review we have challenged management on the appropriateness of applying a five year amortisation period to such a complex, extensive project. Management confirmed they believe a five year period to be appropriate as this is consistent with other IT assets held by the authority and reflects the general need to update and upgrade software over a short timeframe. Whilst we believe this could lead to assets being fully amortised before the end of their useful lives we have accepted the policy is not unreasonable in the wider context of the Authority.

As discussed on page 7 of this report, we held lengthy discussions with management regarding the valuation of the Authority's waste assets. Due to the specialist nature of the assets we engaged an external valuations expert to review these valuations. Our valuations expert identified a number of issues in the valuations which were discussed with the Authority's valuer. Following these discussions the Authority's valuer agreed to update the valuations which reduced the overall value by c. £15m. Management have agreed to amend the accounts to incorporate the revised valuation.

In addition, as a result of independent quality reviews of audit suppliers' work, in particular by the Financial Reporting Council, we have increased the level of work we carry out on defined benefit pension schemes and the valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the level of work and time required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

Significant difficulties during the audit

During the course of the audit we have had the full co-operation of management who have provided timely responses to our queries as they arose. The nature of the errors identified in relation to the Authority's waste valuations inevitably took a significant time to resolve due to their technical nature and impacting on a large number of disclosures in the financial statements. This meant the audit was not complete in time for the extended 30 November 2020 reporting timetable.

We would like to thank the finance team for their cooperation throughout the audit process.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received no questions or objections in respect of the 2019-20 accounts.

Modifications required to our audit report

As set out on pages 7 and 9, due to the inclusion of material valuation uncertainty disclosures in respect of property, plant and equipment assets and the Authority's share of the pension fund's property investments our auditor's report includes an emphasis of matter paragraph drawing the readers' attention to the relevant disclosures in the financial statements. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	2
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	4
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	3

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 1

Description of deficiency

Reconciliations of balance sheet accounts are not being completed for all required accounts.

Potential effects

There is a risk that accounting transactions are not reversed, written out, or adjusted for as required without the review and reconciliation process taking place. This could potentially lead to the balance on the account at the year end being misstated.

Recommendation

Balance sheet account reconciliations should be carried out periodically and on a timely basis.

Management response

Processes will be put in place to monitor balance sheet codes more closely on a quarterly basis for the new financial year.
To be implemented by 30th June 2021 for first quarter monitoring.
Responsible Officer: Karen Macrae

Description of deficiency

Management do not complete a detailed review of the external valuers reports received to ensure that they are satisfied with the approach taken, assumptions used and resulting valuations.

Potential effects

The external valuers report may be materially misstated due to use of an inappropriate approach or assumptions in undertaking the valuation.

Recommendation

Management should carry out a detailed review of the external valuers report and assumptions to ensure that they are satisfied with the approach taken, assumptions used and resulting valuations.

Management response

Valuer instructions will be strengthened and officers will follow a checklist to conduct a review of information provided. The checklist will be shared with the relevant valuer to ensure they are fully aware of the requirements.
Checklist and instructions to be implemented by 31st March 2021 in preparation for 20/21 closedown.
Responsible Officer: Lindsey Keech

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

As part of our testing we have identified a number of incorrect accruals and prepayments. There was a lack of management review of these year end adjustments.

Potential effects

The value of accruals and prepayments could potentially be misstated in the balance sheet.

Recommendation

Management review of the year end accruals and prepayments should be carried out to reduce the risk of incorrect year end adjustments being processed.

Management response

Due to the number of prepayments and accruals entered onto the system at year end it would not be practical for management to review
every entry; we will therefore review a list of prepayment and accruals over £20,000 at year end to ensure the entries are reasonable and supporting evidence is available. This task will be added to the year end timetable.
New tasks to be included in 20/21 closedown timetable by 28th February 2021.
Responsible Officer: Karen Macrae

Description of deficiency

All waste buildings are depreciated straight line over a 30 year useful life, rather than being depreciated over the useful life as per the valuation report, for 2019/20 the valuer estimated the useful life of the waste buildings within the range of 25 to 50 years.

Potential effects

The depreciation charge for the year could potentially be misstated.

Recommendation

Management should update the asset lives of the waste building assets for depreciation purposes annually on receipt of the valuation report which includes an estimate of the assets useful life in the valuers professional judgement.

Management response

Asset lives will be updated on receipt of the valuer's report.
Timeframe: 30th April 2021
Responsible Officer: Lindsey Keech

Other deficiencies in internal control – Level 2 (Continued)

Description of deficiency

As part of our testing of leases we have identified that there is not an overall leases register for the Combined Authority which is reviewed and updated annually ahead of the accounts preparations.

Potential effects

The authority currently do not include a leases note within their accounts on the basis of materiality. However should the value of leases increase, without up to date information on new leases being entered into or updates to lease terms the authority may omit a material disclosure from the accounts particularly in light of the implementation of the new leases standard IFRS 16.

Recommendation

A leases register should be maintained and updated as at the year end date. This recommendation is especially important in light of the implementation of the new leases standard IFRS 16.

Management response

The GMCA is aware of the new requirements for IFRS 16 for the 22/23 financial year and will put in place a working group of finance and procurement professionals who will liaise with other officers as appropriate to prepare the information required. A key part of that process will be to identify and collate existing information on contracts and leases with the intention of creating a lease register. The working group will propose a new process to ensure all future contracts are considered for lease classification and that all relevant details are recorded on the register.
Timeframe: by 31st October 2021
Responsible Officer: Karen Macrae

Description of deficiency

As at the date of the accounts being submitted for audit there were a number of declarations of interests forms still outstanding from senior officers of the Authority. These were received as we progressed through the audit

Potential effects

The related parties transactions note to the account may omit material disclosures of related parties due to the declarations of interests forms not being available for review during the preparation of the note to the accounts.

Recommendation

The timeliness of declarations of interests forms being received should be improved.

Management response

Annual Declarations of Interest and Code of Conduct Forms will continue to be circulated to GMCA members at the point of notification of appointment to the GMCA, with a response deadline of 28 Days, and made available on the GMCA website by 31st July each year.
Process is already in place.
Responsible Officer: Sylvia Welsh

Other recommendations on internal control – Level 3

Description of deficiency

There was no user access review carried out for the payroll system (iTrent) in the audit period.

Potential effects

Without timely review of users, users who have left the Authority or moved to a different role within the Authority may have an inappropriate level of access to the iTrent system.

Recommendation

Management should conduct user access review for iTrent annually. This is to ensure correct access is maintained for all employees and leavers are revoked in a timely manner.

Management response

There is a process in place for leavers whereby their account is ended as part of the automated leaver process; movers have their access reviewed as part of the mover process. A matrix is in place to record all roles and sign off by the owner. Management will ensure owners are contacted regularly to make sure the process is being followed and sufficient evidence it being recorded.
New process is already in place.
Responsible Officer: Ashley Southern

Description of deficiency

In relation to the Authority's IT systems, intruder lockout threshold is set at 50 attempts which poses a risk from automated attacks.

Potential effects

There is an increased risk of automated attacks due to the high lockout threshold.

Recommendation

Management should consider lowering the threshold in order to help deter automated attacks.

Management response

On the 4th September 2020 GMCA Digital Services reduced the account lockout threshold from 50 down to 10. This is inline with NCSC best practice. In early 2021 we hope to launch a joint programme of works which will see us reduce the threshold further and introduce supporting technologies such as Multi Factor Authentication (MFA) and Self Service Password Rest (SSPR).
Joint programme of works to be launched by 30th April 2021.
Responsible Officer: Paul Wilkinson

Other recommendations on internal control – Level 3 (Continued)

Description of deficiency

There is currently no defined de-minus level within the Authority's accounting policies for accruals and prepayments.

Potential effects

It is recognised as good practise to define a de-minus level. Without a defined de-minus level it is likely that there will be inconsistencies across the Authority of the level of accruals and prepayments processed.

Recommendation

Management should document a defined de-minus level within the Authority's accounting policies for accruals and prepayments.

Management response

Due to the nature of some of the GMCA grants and budgets it would not be practical to set a blanket de-minimus level for posting accruals and prepayments. We will set an advised limit of £20,000 as a general rule, with smaller entries permitted where necessary (eg for grant claims).
Timeframe: 31st May 2021
Responsible Officer: Karen Macrae

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

The draft statement of accounts were submitted late due to issues in the accounts preparation system identified late in the process. As a result of this the finance team had to manually prepare the statement of accounts at short notice.

Potential effects

Due to the short time available for preparing the accounts, a number of material errors were identified during the audit process. Whilst none of these impacted on the reported general fund balance there is a risk that fundamental errors in the Authority's reported position could be caused by a reoccurrence of these events.

Recommendation

Management should complete a debrief of the accounts preparation process to identify how this situation can be avoided in future years, and ensure appropriate contingency is place.

2019/20 update

A full debrief on the issues identified in the 2018/19 closedown was undertaken following completion of the audit. The decision was taken at an early stage to revert to preparing the financial statements manually, as had occurred in previous years. The impact of the COVID-19 pandemic meant the publication date for draft accounts was pushed back to 31 August 2020 and management were able to meet this reporting timetable.

Despite the additional checks put in place by the finance team, a number of disclosure errors were identified during the course of the audit which led to amendments to the accounts. **We recommend management identifies the cause of these errors and looks to build further controls into the accounts preparation process for 2020-21.**

Follow up of previous internal control points (Continued)

Description of deficiency

Our testing of assets under construction identified one asset which had become operational in 2017 but had not been reclassified as operational in the statement of accounts.

Potential effects

Failure to reclassify an asset as operational on a timely basis results in depreciation not being charged from the appropriate period and an understatement of reported expenditure.

Recommendation

Management should implement a process for regular review of assets under construction to ensure these are reclassified as operational and depreciation charged on a timely basis.

2019/20 update

As part of the 2019/20 working papers the Authority provided a comprehensive review document which demonstrated that the assets under construction had been subjected to an appropriate level of review and reclassifications had been processed where required.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.81m. All misstatements identified throughout the course of the audit have been adjusted for by management.

The table below outlines the misstatements that have been adjusted by management during the course of the audit.

Adjusted misstatements 2019/20 (Single Entity)

		Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cash and Cash Equivalents			10,000	
	Cr: Short Term Investments				10,000
	Explanation A balance of £10m was incorrectly classified as short term investment, this has been reclassified as cash equivalent. The prior year comparator has also been amended (value of prior year amendment £8.337m).				
2	Dr: Net Cost of Services: Gross Expenditure	8,798			
	Dr: Other Comprehensive Income & Expenditure: Re-measurement of the Net Defined Benefit Liability	15,964			
	Cr: Pensions Liability				24,762
	Explanation Amendment to reflect the revised IAS 19 reports updated for the McCloud remedy.				
3	Dr: Property, Plant & Equipment			27,171	
	Cr: Intangible Assets				27,171
	Explanation Reclassification between PPE and Intangibles to reflect the nature of the assets within the iOPS project and classify these between Tangible and Intangible assets. The prior year comparator has also been amended (value of prior year amendment £26,979k as at 31/03/19 and £19,985k as at 01/04/18).				
4	Dr: Revaluation Reserve			16,544	
	Dr: Net Cost of Services: Gross Expenditure	615			
	Cr: Property, Plant & Equipment				17,159
	Explanation Amendment to reflect the revised valuation report of waste assets.				

The above amendments have also been reflected within the Group Accounts.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

We set out below the misstatements identified for adjustment in the Group Accounts during the course of the audit, above the level of trivial threshold of £0.95m. All misstatements identified throughout the course of the audit have been adjusted for by management.

The table below outlines the misstatements that have been adjusted by management in the Group Accounts during the course of the audit.

Adjusted misstatements 2019/20 (Group)

		Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net Cost of Services: Gross Expenditure	84,919			
	Dr: Financing and Investment Income & Expenditure	270			
	Dr: Other Comprehensive Income & Expenditure: Re-measurement of the Net Defined Benefit Liability	21,843			
	Cr: Pensions Liability				107,032

Explanation
Amendment to reflect the revised IAS 19 reports in respect of GMP updated for the McCloud remedy and month 12 actual data.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

During our review of the financial statements and annual report we have identified a number of amendments to disclosures, these are outlined below. All have been adjusted for in the final version of the financial statements.

- Note 8 Adjustments between Accounting Basis and Funding Basis under Regulations: £24,148k increase to the adjustment to the transfer between the General Fund and the Financial Instruments Adjustments Account.
- Note 8 Adjustments between Accounting Basis and Funding Basis under Regulations: £20,404k reduction in the Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure.
- Note 8 Adjustments between Accounting Basis and Funding Basis under Regulations: £3,744k reduction in the Movement in Capital Bad Debt Provision adjustment.
- Note 11 Expenditure and Income Analysed by Nature: £17,084k adjustment between fees & charges income and government grants income.
- Note 11 Expenditure and Income Analysed by Nature: £2,676k adjustment between capital charges and other service expenditure.
- Note 15 Financing and Investment Expenditure and Income Analysis: £4,023k adjustment between PWLB interest and European Investment Bank interest.
- Note 18 Officers Remuneration: Various amendments to the Officers with Remuneration above £50,000 table within the note. The revised note increases the total number of Officers within the note by 13 Officers.
- Note 19 Capital Expenditure and Capital Financing: £36,120k adjustment between Loan Advances and Housing Investment Fund Loan Advances Novated to GMCA.
- Note 19 Capital Expenditure and Capital Financing: Reduction in Police Capital Commitments by £13,046k.
- Note 20 Property, Plant and Equipment: Presentational amendments to ensure consistency of treatment of valuations movements across the Authority's three fixed asset registers.
- Note 22 Short and Long Term Debtors: Updated terminology from 'Bad Debt Provision' to 'Impairment Allowance' to comply with the CIPFA Code.
- Note 30 Related Party Transactions: Amendment required to include the £50m loan from GMPF which has previously been omitted.
- Note 30 Related Party Transactions: £116,664k increase to balance disclosed with TFGM for expenditure.
- Note 33 Defined Benefit Pension Schemes: Disclosure included on the expected pensions contributions for the following financial year which had previously been omitted.
- Note 34 Contingent Liabilities: The contingent liability disclosure has been removed as pensions are not within the scope of IAS 37.

5. VALUE FOR MONEY CONCLUSION

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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, 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
- Working with partners and other third parties

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Combined Authority membership is comprised of one elected member from each of the ten Greater Manchester councils and the Mayor of Greater Manchester. It is governed by a Constitution including all of the normal features of an effective governance framework in local government. In response to the COVID-19 pandemic GMCA has worked proactively with other organisations across Greater Manchester through multi-agency response structures such as the C19 Executive Group co-chaired by the Chief Executive of GMCA. The Authority's risk register is actively monitored at meetings of the Audit Committee and the Audit Committee oversees the governance framework including the work of internal audit. The Authority's Annual Governance Statement includes a balanced assessment of the effectiveness of its governance arrangements and identifies appropriate areas for further improvement. During the course of the audit HMICFRS issued the findings from their inspection in relation to the service provided to victims of crime by Greater Manchester Police. Whilst the report focuses on operational aspects of policing, the failings identified inevitably inhibit the ability of the Deputy Mayor and the Police and Crime Panel to provide effective oversight due to the deficiencies in available data on reported crimes. The findings of this report therefore lead us to conclude there are weaknesses in the Authority's arrangements for securing value-for-money in respect of being able to take properly informed decisions.	No

Our approach to Value for Money continued

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Authority's financial position is reported to Combined Authority meetings on a regular basis including detail on each of the Authority's responsibilities. PCC finances are not reported to the Authority but dealt with directly in meetings with the Deputy Mayor. The Authority continues to manage its financial position effectively with balanced budgets set for 2019/20 and 2020/21. The Authority recognises savings are required over the medium term to cover the budget shortfall in the Fire and Rescue Service. The Authority is undertaking a whole service review of the Fire and Rescue Service and has developed a range of options to deliver savings through the Programme for Change. The Authority continues to deliver its financial plans and the 2019/20 outturn achieved a £3,781k underspend against the GMCA and Mayoral General budget following transfers to earmarked reserves. The level of General Fund balances at year end totalled £473m which is sufficient to support the Authority's functions over the medium-term. The Authority continues to monitor the financial impact of the COVID-19 pandemic through regular reports to meetings of the Combined Authority. The latest estimates suggest a net cost to the Authority of c. £49m after receipt of central government funding, with the main impact being on the level of retained business rates growth. The Authority has supported Greater Manchester Councils throughout the pandemic through a mixture of returning funding to Districts and deferring funding to future years. The Authority will continue to monitor the ongoing impact of the COVID-19 pandemic on its financial position and incorporate these into the budgets for 2021-22 and beyond.	Yes
Working with partners and other third parties	The Authority works with a range of third parties to deliver the Greater Manchester Strategy. The Authority works closely with other public sector organisations across Greater Manchester. For example the Authority is working with Councils to implement the GM Full Fibre Programme which aims to transform the digital infrastructure in Greater Manchester. Devolution of the Adult Education Budget commenced from 1 August 2019. The Authority has worked closely with existing service providers to develop transitional arrangements and a commissioning approach to support the Greater Manchester ambition.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money 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. In our Audit Strategy Memorandum, we reported that we had identified two significant Value for Money risk(s). The work we carried out in relation to significant risks is outlined below.

Risk	Findings	Conclusion
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 reviewed the governance arrangements the Authority had in place in relation to the GMFRS Programme for Change. Through our discussions with officers and review of papers we have confirmed appropriate governance structures are in place through the Programme Board and Steering Group. Detailed action plans are considered at meetings with accountable officers assigned to each action. This includes action plans in relation to findings from HMICFRS assessments and progress made to date. Decisions taken in relation to the Programme for Change are supported by detailed financial information, allowing for changes in proposals to the Outline Business Case to be fully considered prior to a decision being made.	We are satisfied the Authority had appropriate governance arrangements in place to support the decision making process in relation to the fire service programme for change.
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 reviewed the governance arrangements the Authority had in place behind the decision making process. Through our discussions with officers at GMCA and TfGM, and through our review of available papers we confirmed the Authority had sought appropriate external advice throughout the process and the draft proposal had been subject to an external review prior to review by members of the Authority. Members were kept appropriately informed throughout the process through reporting to Combined Authority meetings. Due to the impact of the COVID-19 pandemic the final decision by the Mayor was not taken as planned in 2019-20. We will continue to review progress on Bus Reform as part of our VfM conclusion in 2020-21.	We are satisfied the Authority had appropriate governance arrangements in place to support the decision making process in relation to bus reform.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue a qualified 'except for' Value for Money conclusion for the 2019/20 financial year.

Our conclusion is modified in respect of the findings from the HMICFRS inspection report issued in December 2020 in relation to the service provided to victims of crime by Greater Manchester Police. The report identifies weaknesses in relation to the reporting of crime in Greater Manchester with over one in five crimes failing to be recorded, and more than one in every four violent crimes. This highlights weaknesses in the governance arrangements for providing effective oversight of Greater Manchester Police through the Mayor's statutory responsibilities for Police and Crime, in particular due to the lack of accurate data in respect of recorded crime.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

Greater Manchester Combined Authority
Churchgate House
Oxford Street
Manchester
[Date]

Dear Mark

Greater Manchester Combined Authority - audit for year ended 31 March 2020
This representation letter is provided in connection with your audit of the financial statements of Greater Manchester Combined Authority ('the Authority') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as the Authority's Treasurer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Combined Authority and committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority and Group's financial position, financial performance and cash flows.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used by the Authority and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies
There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations
I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error
I acknowledge my responsibility as the Authority's Treasurer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority and Group involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions
I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Authority and Group's related parties and all related party relationships and transactions of which I am aware.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Future commitments
I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
I confirm that I have carried out an assessment of the potential impact of the Covid-19 pandemic on the Authority and Group, including the impact of mitigation measures and uncertainties and am satisfied the going concern assumption remains appropriate and that no material uncertainty has been identified. To the best of my knowledge there is nothing to indicate that the Authority and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in Appendix A.

Yours faithfully

Steve Wilson
Treasurer

APPENDIX B
DRAFT AUDITOR'S REPORT

To follow.

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

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