

Annual Audit Letter

Greater Manchester Combined Authority

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor of Greater Manchester Combined Authority (the Authority) for the year ended 31 March 2020. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

| Area of responsibility | Summary |
|--|--|
| Audit of the financial statements | <p>Our auditor's report issued on 16 February 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 |
| Other information published alongside the audited financial statements | <p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none">• the other information in the financial statements is consistent with the audited Statement of Accounts. |
| Value for money conclusion | <p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020, 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.</p> |
| Reporting to the group auditor | <p>In line with group audit instructions, issued by the NAO on 4 November 2020, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return on 20 August 2021.</p> |
| Statutory reporting | <p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p> |

Executive summary

Audit of the financial statements

Value for money conclusion

Other reporting responsibilities

Our fees

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended.

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

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

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2020 and of its financial performance for the year then ended. Our report included an emphasis of matters paragraph. This drew attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the valuation of the Authority's land and buildings and the Authority's share of Greater Manchester Pension Fund's property assets included in the net Pension Liability.

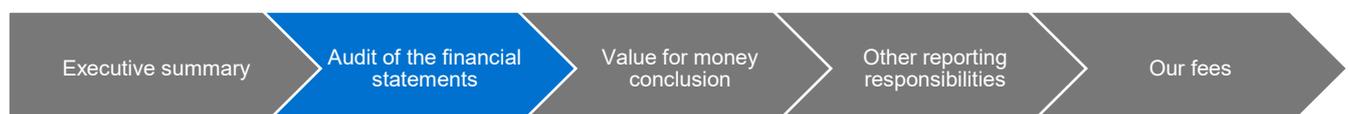
Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

| | | |
|---------------------------------|--|-------------------|
| Financial statement materiality | Our financial statement materiality is based on 1.6% of gross revenue expenditure. | £27m |
| Trivial threshold | Our trivial threshold is based on 3% of financial statement materiality. | £0.8m |
| Specific materiality | We have applied a lower level of materiality to the following areas of the accounts: - Officers' Remuneration Disclosures - Related Party Transactions | £0.005m £0.05m |



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

| Identified significant risk | Our response | Our findings and conclusions |
|---|--|--------------------------------------|
| <p>Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p> | <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> 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. | <p>There were no issues arising.</p> |



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks continued

| Identified significant risk | Our response | Our findings and conclusions |
|---|--|---|
| <p>Valuation of property, plant and equipment</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | <p>We assessed the valuer’s qualifications, objectivity and independence to carry out such valuations, and reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations. We engaged an external valuation specialist to review the more complex investment property valuations.</p> <p>We reviewed the Authority’s approach to ensuring that assets not subject to valuation in 2019/20 are materially misstated and we considered the approach in light of the valuation information reported by the valuers. In addition, we considered the movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p> <p>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.</p> <p>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.</p> | <p>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. The effect of these errors was to reduce the valuation of the Authority’s waste assets by £15.7m. The accounts were amended to reflect this.</p> <p>The Authority has included relevant disclosures in relation to the material valuation uncertainties highlighted by the valuers (in Note 3). Our auditor’s report included an ‘Emphasis of Matter’ paragraph which draws readers’ attention to the appropriate disclosures. This does not constitute a modification to our audit opinion.</p> <p>We concluded that the revised valuation of the Authority’s Property, Plant & Equipment was materially fairly stated.</p> |



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks continued

| Identified significant risk | Our response | Our findings and conclusions |
|--|---|---|
| <p>Valuation of Defined Benefit Pension Liability</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The risk increased as a result of the market uncertainties arising from the impact of COVID-19.</p> | <p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the scheme actuaries, Hymans Robertson and the Government Actuary Department (GAD).</p> <p>We reviewed the appropriateness of the methodology applied in the valuation of the liabilities by Hymans Robertson and GAD, and the key assumptions included within the valuation, comparing them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We considered the Authority's response to the key risks that emerged through the audit relating to legal cases that impact on the Local Government Pension Scheme.</p> <p>In addition our work focused on two issues that emerged through 2020. In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was included in the Authority's liability in 2018/19 and 2019/20. The proposed remedy indicated that the actuarial estimate of the liability for 2018/19 and 2019/20 was likely to be overstating the pension fund liability but not materially.</p> <p>A second emerging issue was the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. Although the impact of 'Goodwin' was still being clarified the Authority's actuary have provided evidence to support their assessment of the impact on the Authority's liability. They concluded that the impact is not likely to be material. In both issues, we engaged with the Authority's actuary and reviewed the evidence provided by the pension fund and the Authority's actuary in order to conclude on the material accuracy of the liability.</p> | <p>The Authority worked with its actuaries to determine the impact of the McCloud case on its pension liabilities. This resulted in a reduction in the Authority's pension liability of £24.8m, and a further reduction of £82.3m to the group pension liabilities.</p> <p>During the course of the audit the Authority obtained revised liability estimates for its group bodies to account for the impact of Covid-19 on pension asset values. This reduced the group liability by £13.1m</p> <p>The Authority disclosed in Note 3 that the valuation of the property assets held by Greater Manchester Pension Fund were subject to 'material valuation uncertainty' as a result of COVID-19, and we included an 'emphasis of matter' in our auditor's report.</p> <p>We concluded that the revised valuation of the Authority's net defined benefit liability was materially fairly stated.</p> |



2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified a small number of deficiencies in internal control as part of our audit, relating to the preparation of the financial statements and the Authority's general IT controls. Management accepted all control recommendations and are working to implement these.



3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Qualified (except for)

Our audit approach

We are required to consider 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; and
- working with partners and other third parties.

Our auditor's report stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020, except for in relation to the HMICFRS's inspection report (December 2020) on the service provided to victims of crime by Greater Manchester Police. The report identified 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 highlighted 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.

Our assessment against each of the value for money sub-criteria is set out on the following pages.



3. VALUE FOR MONEY CONCLUSION

Our audit approach continued

| Sub-criteria | Commentary | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <p>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.</p> <p>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.</p> <p>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.</p> <p>The Authority’s Annual Governance Statement includes a balanced assessment of the effectiveness of its governance arrangements and identifies appropriate areas for further improvement.</p> <p>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.</p> | No |



3. VALUE FOR MONEY CONCLUSION

Our audit approach continued

| Sub-criteria | Commentary | Arrangements in place? |
|---------------------------------|--|------------------------|
| Sustainable resource deployment | <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | Yes |



3. VALUE FOR MONEY CONCLUSION

Our audit approach continued

| Sub-criteria | Commentary | Arrangements in place? |
|---|--|------------------------|
| Working with partners and other third parties | <p>The Authority works with a range of third parties to deliver the Greater Manchester Strategy.</p> <p>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.</p> <p>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.</p> | Yes |



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified two significant audit risks. The work we carried out in relation to significant risks is outlined below.

| Risk | Work undertaken | Conclusion |
|---|--|---|
| <p>Programme for Change</p> <p>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.</p> <p>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.</p> | <p>We reviewed the governance arrangements the Authority had in place in relation to the GMFRS Programme for Change.</p> <p>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.</p> <p>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.</p> | <p>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.</p> |
| <p>Bus Reform</p> <p>The Bus Services Act 2017 gave Greater Manchester Combined Authority new powers to reform the local bus market.</p> <p>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.</p> <p>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.</p> | <p>We reviewed the governance arrangements the Authority had in place behind the decision making process.</p> <p>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.</p> <p>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.</p> | <p>We are satisfied the Authority had appropriate governance arrangements in place to support the decision making process in relation to bus reform.</p> |



4. OTHER REPORTING RESPONSIBILITIES

| | |
|--|----------------------|
| Exercise of statutory reporting powers | No matters to report |
| Completion of group audit reporting requirements | Consistent/ |
| Other information published alongside the audited financial statements | Consistent |

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

Matters on which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 20 August 2021.

Other information published alongside the financial statements

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



5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit Committee in April 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

| Area of work | 2019/20 proposed fee | 2019/20 final fee |
|---|----------------------|-------------------|
| Delivery of audit work under the NAO Code of Audit Practice | £70,000 | £70,000 |
| Fee variations*: | | |
| Recurrent scope changes due to increased regulatory expectations: | | |
| <ul style="list-style-type: none">Additional testing on Property, Plant & Equipment and Defined Benefit Pensions Schemes | | £10,000 |
| In year scope changes due to Covid-19 and pension legal cases including, but not limited to: | | |
| <ul style="list-style-type: none">impact of 'Material Valuation Uncertainty' on the Council's land and buildings and its share of Pension Fund property assets; | | £1,500 |
| <ul style="list-style-type: none">additional considerations of estimation uncertainty in going concern; | | £2,000 |
| <ul style="list-style-type: none">changes impacting pension liabilities through the McCloud and Goodwin legal cases. | | £3,500 |
| Other matters: | | |
| <ul style="list-style-type: none">External valuer work on the valuation of waste properties and additional audit time arising from errors | | £11,725 |
| <ul style="list-style-type: none">Additional work required in the review of the Authority's Whole of Government Accounts return | | £4,000 |
| Total audit fee | | £102,725 |

Fee variations are subject to final approval by PSAA.

Fees for other work

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



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