Audit Strategy Memorandum

Greater Manchester Combined Authority

Year ending 31 March 2022

mazars

Contents

Members of the Audit Committee
Greater Manchester Combined Authority
Churchgate House
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Mazars LLP
One St Peter's Square
Manchester
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29 March 2022

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2022

We are pleased to present our Audit Strategy Memorandum for Greater Manchester Combined Authority for the year ending 31 March 2022. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

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

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit,

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07795 506766.

Yours faithfully

Mark Dalton
Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Greater Manchester Combined Authority (the Authority) for the year to 31 March 2022. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

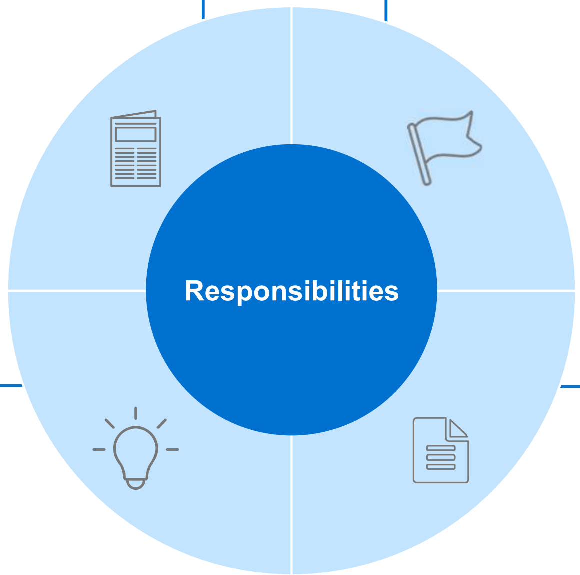
We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of whether is it appropriate for the Authority to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Value for money

We are also responsible for forming a commentary on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Wider reporting and electors' rights

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

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

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service continues to be led by Mark Dalton. A summary of key team members are detailed below:

Who	Role	E-mail
Mark Dalton	Engagement Lead	mark.dalton@mazars.co.uk
Daniel Watson	Engagement Senior Manager	daniel.watson@mazars.co.uk
Joe Broom	Audit Senior	Joe.broom@mazars.co.uk

As the Authority meets the criteria of a Major Local Audit under the Local Audit Act 2014, per the firm's quality management arrangements, an engagement quality control reviewer (EQCR) has been appointed. They will work with the engagement lead and the team, but have no direct engagement with the Authority.

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

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

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

Audit approach

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

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

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

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

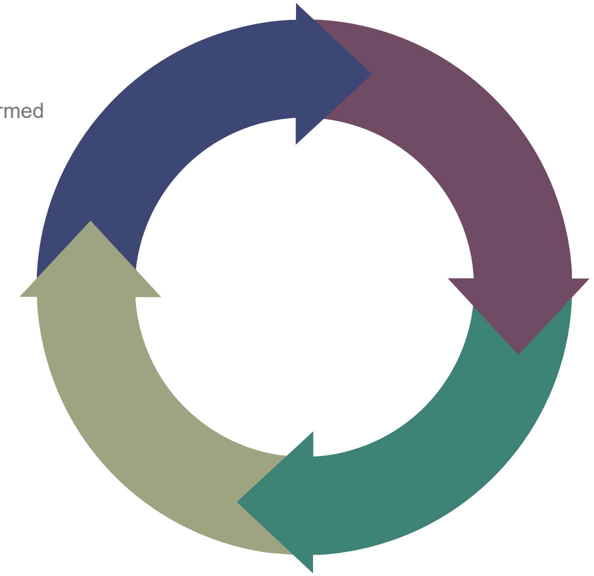
DLUHC have confirmed that audited accounts for local authorities for 2021/22 are required by 30 November 2022, however they have yet to confirm the final financial reporting timeline for 2021/22 in respect of draft accounts submission. It is expected that they will be required by 31 July 2022. We will work with the Authority to agree a detailed plan to help ensure that it can meet the submission dates

Planning- February 22

- Planning visit and developing our understanding of the Authority.
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim- March 22

- Documenting systems and controls
- Performing walkthroughs
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Fieldwork- September and October 22

- Receiving and reviewing draft financial statements, including review by our technical accounting team
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

Completion- October 22

- Final partner and Engagement Quality Control Reviewer review
- Final review and disclosure checklist of financial statements
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor's report

Value for Money

We plan to complete and report our Value for Money arrangements work within three months of our audit opinion, per National Audit Office (NAO) guidance. See section 5 of this report for more details of our work in this area.

3. Audit scope, approach and timeline

Reliance on internal audit

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

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

Management's and our experts

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

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

Service organisations

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

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

3. Audit scope, approach and timeline

Group audit approach

The Authority prepares Group accounts and consolidates the following bodies:

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

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

The approach to the Group audit is set out below:

Entity	Auditor	Scope	Planned audit approach
Chief Constable of Greater Manchester Police	Mazars LLP	Full-scope audit procedures	We will: • complete full-scope audit procedures on the Chief Constable of Greater Manchester's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Transport for Greater Manchester	Mazars LLP	Full-scope audit procedures	We will: • complete full-scope audit procedures on Transport for Greater Manchester's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
NW Evergreen Holdings Limited Partnership	Kreston Reeves	Targeted procedures	Our work will be focused on the material elements of NW Evergreen Holdings Limited Partnership's financial statements. We will: • complete analytical procedures on NW Evergreen Holdings Limited Partnership's financial statements; • request third party confirmation of the company's debtor balance; and • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Greater Manchester FoF Limited Partnership	Kreston Reeves	Targeted procedures	Our work will be focused on the material elements of Greater Manchester FoF Limited Partnership's financial statements. We will: • complete analytical procedures on Greater Manchester FoF Limited Partnership's financial statements; • request third party confirmation of the company's bank balance; and • review the consolidation process and adjustments made by GMCA in preparing group financial statements.

3. Audit scope, approach and timeline

Group audit approach continued

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

The Authority also holds investments and interests in other bodies. Management carry out an annual assessment to see if these bodies have become sufficiently material to warrant consolidation into the Group accounts. NW Fire Control Company, Commission for New Economy Limited, Greater Manchester Accessible Transport Limited and Manchester Investment and Development Agency Service were not consolidated in 2020/21 because their inclusion would not materially alter the accounts. We will revisit management's assessment of the Group for 2021/22.

We have not identified any significant risks for Group accounts purposes in relation to the components. The significant risks and areas of audit focus for the Authority as a single-entity are set out in section 4.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

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

Significant risk

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

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

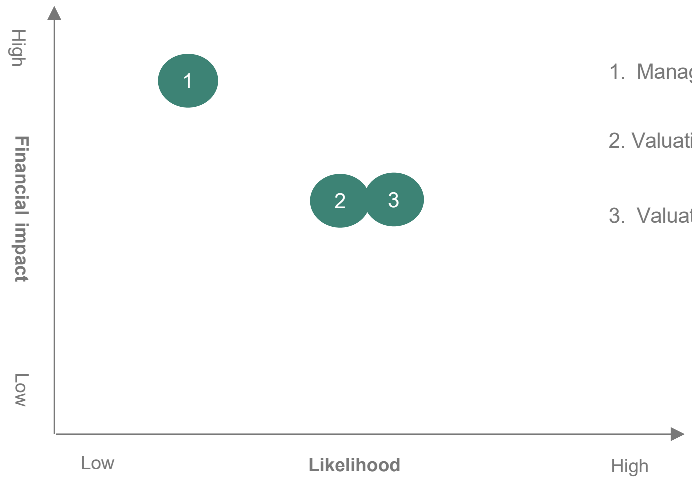
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

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

Summary risk assessment

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



1. Management override of controls
2. Valuation of the net defined benefit liability
3. Valuation of property, plant and equipment

Key: Significant risk

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over material accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation** 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 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 obligations are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2021/22.	○	●	●	In relation to the valuation of the Authority's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson and the Fire Fighters Pension Scheme Actuary, the Government Actuary Department (GAD); • Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund actuaries, and the key assumptions included within the valuations. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; • Agree the data in the IAS 19 valuation reports provided by the Funds' actuaries for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of property, plant and equipment** The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle. The valuation of Property, Plant & Equipment involves the use of a management expert (the valuers), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.	○	●	●	In relation to the valuation of property, plant & equipment we will: • Critically assess the Authority's valuer's scope of work, qualifications, objectivity and independence to carry out the Authority's programme of revaluations; • Consider whether the overall revaluation methodology used by the Authority's valuers is in line with industry practice, the CIPFA Code of Practice and the Authority's accounting policies; • Reconcile the valuer's report to the fixed asset register and ensure that the values per the report have been correctly input, in total, to the asset register; • Critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's report, using available third party evidence; • Engage a valuations specialist to review the underlying assumptions in the Authority's valuations for a sample of waste assets; • Review the basis of valuation and confirm that this is appropriate and agrees to the asset register; • Critically assess the treatment of the upward and downward revaluations in the Authority's financial statements with regards to the requirements of the CIPFA Code of Practice; and • As Fire and Police assets are revalued before 31/03/22 we will assess the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; • Critically assess the approach that the Authority adopts to ensure that assets not subject to revaluation in 2021/22 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Authority's valuers.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

Enhanced risks

	Description	Fraud	Error	Judgement	Planned response
1	**Property Plant and Equipment system change** In 2021/22 the Authority has implemented a new asset register, having previously used four different asset registers for waste, fire, police and traffic signal assets. The transfer of data between systems increases the risk of material misstatement in the Authority's accounts, as there is potential for data to be transferred incorrectly during the migration to the new system.	○	●	○	In relation to the transfer of property, plant & equipment data we will complete the following: - Review GMCA's reconciliations between the old and new systems. - For a sample of assets we will ensure that that data is consistent between the old and new systems. We will test a sample from the new to the old system and vice versa.

05

Section 05:

Value for money

5. Value for money

The framework for Value for Money work

We are required to form a view 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

2021/22 will be the second audit year where we are undertaking our value for money (VFM) work under the 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Authority has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Authority's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

At the point of preparing the 2021/22 Audit Strategy Memorandum we have yet to finalise our work in respect of the 2020/21 value for money work. Once this is finalised, we will commence our planning for the 2021/22 value for money work. Our work in 2021/22 will include the follow up of any VFM recommendations made in 2020/21.

Planning and risk assessment	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Authority's appointed auditor

Details of the proposed 2020/21 and 2021/22 fees are set out below. Our work in respect of 2020/21's Value for Money arrangements and Whole of Government Accounts return remains in progress. We will update the Committee of the final agreed 2020/21 fee in our Auditor's Annual Report.

Area of work	2021/22 Proposed Fee	2020/21 Proposed Fee
Scale Audit Fee	£70,000	£70,000
Fee Variations		
Additional Testing on Defined Benefit Pensions Schemes and Property, Plant and Equipment	£10,000[1]	£10,000[1]
Additional testing as a result of the implementation of new auditing standards: ISA 220 (Revised): Quality control of an audit of financial statements; ISA 540 (Revised): Auditing accounting estimates and related disclosures; and ISA570 (Revised) Going Concern;	£2,000 [2]	£2,000 [2]
Other additional costs	TBC	TBC[3]
Sub-total	**£82,000**	**£82,000**
Additional work arising from the change in the Code of Audit Practice	TBC[4]	TBC
Total	**£82,000**[5]	**£82,000**

[1] As previously reported to you, the scale fee requires adjusting to take into account the additional work required as a result of increased regulatory expectations in these areas.

[2] New auditing standards were introduced in 2020/21 which lead to additional audit work not reflected in the scale fee.

[3] The additional audit cost in 2020/21 is to be disclosed within our Auditor's Annual Report. This mainly relates to additional testing and reporting of uncertainties in key estimates as a result of Covid-19.

[4] The new Code of Audit Practice and associated changes to the way in which we undertake and report our value for money work from 2020/21 requires additional audit input.

[5] This is a proposed fee for 2021/22 at the point of the issue of our ASM. This figure is subject to change and any additional costs will be discussed with management.

6. Fees for audit and other services

Services provided to other entities within the Authority's group

Area of work	2021/22 Proposed Fee	2020/21 Proposed Fee
Chief Constable of Greater Manchester Police audit	£46,498	£46,498[1]
Transport for Greater Manchester audit	£43,670	£46,170
Total	**£90,168**	**£92,668**

[1] As with the GMCA audit fee, our work on the GM Police value for money arrangements remains in progress at this stage.

07

Section 07:

Our commitment to independence

7. Our commitment to independence

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

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

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

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

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

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

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

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	GMCA initial threshold £'000s	Group initial threshold £'000s
Overall materiality	35,000	41,000
Performance materiality	19,250	22,550
Specific materiality – Senior officer remuneration disclosures including any associated exit packages	5	5
Specific materiality – Related party transactions	50	50
Trivial threshold for errors to be reported to the Audit Committee	1,050	1,230

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of gross expenditure at the surplus/deficit on provision of services level. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the gross expenditure at the surplus/deficit on provision of services remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 1.8% of gross expenditure at the surplus/deficit on provision of services. Based on the prior year audited accounts we anticipate the overall materiality for the year ending 31 March 2022 to be in the region of £35m (£30m in the prior year) for the single entity accounts and £41m (£35m in the prior year) for the group accounts.

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Due to the improvement made in the quality of the financial statements in 2020/21, evidenced by the lower number of identified errors, we have applied 55% of overall materiality as performance materiality which is an increase from the 50% we applied in the prior year.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £1.05m for the single entity accounts and £1.23m for the group accounts based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to the Audit Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit Committee:

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

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Appendix: Key communication points

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We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

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

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Audit Completion Report and discussion at Audit Committee, Audit planning and clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

Mark Dalton, Director – Public Services

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