

Date: **15<sup>th</sup> March 2023**

Subject: **Final GMCA Statement of Accounts 2021/22**

Report of: **Steve Wilson, Treasurer of the GMCA**

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## **PURPOSE OF REPORT**

This report provides a copy of the Greater Manchester Combined Authority (GMCA) group accounts for 2021/22.

The report updates the committee on the changes since the draft accounts were published and confirms, subject to the committee's approval of the accounts and the unadjusted misstatements, that the final accounts expect to receive an unqualified opinion from the authority's external auditors subject to outstanding issues set out in the report.

## **RECOMMENDATIONS:**

Audit Committee members are requested to note the final statement of accounts 2021/22 and to note the changes to accounts during the audit period and to approve the unadjusted misstatements contained within this report.

Audit Committee members are requested to delegate to the GMCA Treasurer, in consultation with the Audit Committee chair, the publication of the final accounts following audit completion.

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Risk Management – the risk from setting unsuitable accounting policies and determining critical accounting judgments is that the External Auditor could qualify the GMCA Accounts and require adjustments which may have an impact on the Authority and Mayoral General / PCC reserves.

Legal Considerations – included in Section 2

Financial Consequences – Revenue – N/A

Financial Consequences – Capital – N/A

Number of attachments included in the report: 2

**BACKGROUND PAPERS:**

2021/22 Draft Statement of Accounts – Audit Committee 27<sup>th</sup> July 2022

<b>TRACKING/PROCESS</b>		
Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board		No
<b>EXEMPTION FROM CALL IN</b>		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?		No
AGMA Commission	TfGMC	Scrutiny Pool
N/A	N/A	N/A

## **1. INTRODUCTION**

- 1.1 This report provides the Greater Manchester Combined Authority (GMCA) group accounts for 2021/22. The report updates the committee on the changes since the draft accounts were published. It confirms that subject to the committee's approval of the accounts, noting the unadjusted misstatements and outstanding issues and that the final accounts expect to receive an unqualified opinion from the authority's external auditors
- 1.2 The Accounts and Audit Regulations issued by the Department for Levelling Up, Housing and Communities (DLUHC) set out the requirements for the production and publication of the annual statement of accounts. The regulations set out that the unaudited accounts are to be certified by the Treasurer as providing a true and fair view of the financial position of the authority as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

## **2. 2021/22 ACCOUNTS TIMESCALES**

- 2.1 The authority is normally required by The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 to present its Statement of Accounts (and associated documents) for public inspection for a period of 30 days which must include the first 10 working days of June.
- 2.2 The government extended the statutory deadlines for local authorities to approve and publish their accounts due to the Coronavirus (COVID-19) pandemic for 2020/21 and 2021/22. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 have implemented these new deadlines by amending the Accounts and Audit Regulations 2015 and came into force on 31st March 2021. The revised deadlines applicable to local authorities for 2021/22 are as follows:
- Unaudited group accounts to be signed off by the Treasurer by 31<sup>st</sup> July 2022 (amended from 31<sup>st</sup> May)
  - Public inspection period for unaudited group accounts to start on or before first working day of August 2022 (amended from 1<sup>st</sup> June)
  - Publish final audited group accounts by 30th November 2022 (amended from 31<sup>st</sup> July)

- 2.3 The publication of the accounts has been delayed primarily due to a national technical issue in respect of accounting for infrastructure assets which arose during 2022, In December 2022 the Department for Levelling Up, Housing and Communities (DLUHC) issued a statutory override for authorities to include in the accounts and the Chartered Institute of Public Finance and Accountancy (CIPFA) followed this up in January 2023 with guidance. This means that most local authority accounts, in particular those with highways assets, did not meet the statutory publication deadline and remain outstanding.
- 2.4 Whole of Government Accounts (WGA) provides a view of the government's financial position and performance by consolidating the UK public sector in line with International Financial Reporting Standards. Most local authorities are now below the materiality threshold for providing WGA, however due to the financial significance of the group accounts, the GMCA does not have this exception. HM Treasury provided the WGA data collection tool for 2021/22 at the beginning of February 2023. GMCA has informed HMT that WGAs are scheduled for external audit during July 2023 which will not meet the HMT exceptionally tight deadline of 31<sup>st</sup> March 2023.

### **3. PRESENTATION OF THE ANNUAL ACCOUNTS**

- 3.1 The GMCA group accounts contain the following sections:
- 3.2 The Treasurers Narrative sets out the background to the financial year including a summary of the Authority's outturn position. The Statement of Responsibilities for the Statement of Accounts which details the responsibilities of the Authority and the Treasurer.
- 3.3 The group statements comprising:
- The Comprehensive Income and Expenditure Statement (CIES) which shows the accounting cost of the Authority's activities rather than the amount to be funded from grants, precepts the share of business rates, district contributions and the transport levy.
  - The Movement in Reserves Statement (MIRS) which explains the movement in the Authority's usable and unusable reserves during the financial year.
  - The Balance Sheet which shows the total assets, liabilities and reserves of the Authority as at the end of the financial year.

- The Cash Flow Statement which shows the reasons for the change in cash and cash equivalents during the financial year.

3.4 Each statement is preceded by a note explaining its purpose and followed by comprehensive notes explaining the statements.

3.5 The following bodies are consolidated alongside the GMCA single entity to create the group accounts:

- Chief Constable of Greater Manchester Police (GMP)
- Transport for Greater Manchester (TfGM)
- NW Evergreen Holdings Limited Partnership (NWEH)
- Greater Manchester Fund of Funds Limited Partnership (FoFLP)
- Greater Manchester Evergreen 2 Limited Partnership (GME2)

3.6 All intra-group trading, balances and unrealised gains and losses as at the end of the period are eliminated in full.

#### **4 EXTERNAL AUDIT REVIEW OF THE ACCOUNTS**

4.1 The draft accounts presented to the Audit Committee on 27<sup>th</sup> July 2022 have been audited by GMCA's external auditors, Mazars. The audit completion report is included separately on the committee agenda and will be presented by Mazars, however following the review by external audit and ongoing management review of the draft accounts, a number of potential amendments have been identified to the published draft accounts.

4.2 The accounts have been updated to reflect the majority of these amendments but in a limited number of cases the decision has been made not to adjust for specific issues. The amendments are described below and the audit committee is asked to review the issues identified and to confirm support for the unadjusted misstatements described.

#### **5 UNADJUSTED MISSTATEMENTS**

5.1 There are a few issues where the accounts have not been adjusted to reflect identified misstatements. These are well below the materiality threshold of £35m for the single entity accounts but above the trivial threshold for adjustment of £1.050m.

The individual and net value of unadjusted misstatements are not considered material and do not affect the reader's interpretation of the accounts. The external audit completion report confirms the approach taken to these issues.

**i. Adjustment for pension liabilities**

- The authority was informed of a maximum potential impact of a current legal case concerning the firefighter's pension scheme. The impact of the case could have an impact on the GMCA pension liability which would equate to a maximum of £1.876m.
- An adjustment to reflect the pension liability from Greater Manchester Pension Fund (GMPF) for the actuary report based on actual figures, which became available during the period since the draft accounts were published of £2.953m.
- The authority's share of an error identified by the GMPF auditor in testing of pension assets which increases the pension liability by an estimated £1.662m.

**ii. Misclassification of income**

- A misclassification of income classified as 'fees, charges and other service' income to 'financing and investment income' as it related to interest payable on loan receivables of £1.557m.

**iii. Short term debtors**

- An adjustment to reflect an over accrual of a debtor of £1.352m in relation to one invoice.

**iv. Asset valuation**

- Two separate errors in relation to the new CIPFA fixed asset system, resetting the useful lives on some assets instead of remaining useful lives, with an overall reduction in asset valuation of £1.530m. This will be reflected in the valuations for the following financial year.

**v. Fair value movements in equity investments**

- Movements on equity investments of £6.122m posted on the balance sheet to capital adjustment reserve rather than the financial instrument revaluation reserve. A small impact on the income and expenditure statement of £66k. Controls will be put in place for future years to ensure correct treatment.

## 6 CHANGES TO THE DRAFT ACCOUNTS

6.1 There are a small number of changes that have been made to the draft accounts following the management and audit review.

**i) Light Rail grant income**

- Correction of grant income of £4.073m which had been incorrectly credited to grant expenditure rather than grant income, this has not affected the income and expenditure position.

**ii) Reclassification of investment**

- Amendment of one investment of £15.006m classified as cash and cash equivalents rather than a short term investment.

**iii) Property, Plant and Equipment**

- Adjustment to reclassify several operational assets valued at £25.639m which were incorrectly held as assets under construction. Additionally, to recognise the downward revaluation of one of the assets of £6.118m has been charged to depreciation in capital adjustment account.
- Correction of misstatements relating to derecognition applied to property, plant and equipment for Fire and Rescue of £1.898m, Waste of £896k and Greater Manchester Police (GMP) of £268k.

**iv) Long term debtors**

- Adjustment to correct error in coding of long-term debtors of £6.911m. There is no change in overall long-term debtors figure, however classification between gross book value and impairment allowance has been amended.

**v) Minimum revenue provision on inherited debt**

- Adjustment to reflect write down period for inherited debt of £420k, which has been met from earmarked reserves.

**iv) Adjusted misstatement found in 2021/22 relating to 2020/21 (prior period adjustment)**

- There has been an adjustment to correct the treatment of the £129.964m light rail grant from Government which was recognised as agency grant

(i.e. provided directly to TFGM) but has subsequently been re-evaluated as a principal grant to GMCA. This reverses an adjusted misstatement in the 2020/21 accounts following further clarification of the grant conditions.

**vi) Other Disclosure adjustments**

- Note 1 - Accounting policies – Property, Plant and Equipment account policy updated to apply the statutory override in relation to derecognition of infrastructure assets reference in paragraph 2.3 above.
- Note 2 – Critical Accounting Judgements – updated for more comprehensive list of entities not considered into the group accounts and to make reference to inclusion of Evergreen 2 in the group financial statements.
- There are adjustments to the notes to the accounts which are detailed in full in the audit completion report.

**7. STATUS OF THE AUDIT - OUTSTANDING ISSUES**

7.1 The work on the 2021/22 accounts is believed to be complete and the audit completion report will confirm that there are no matters known that would require modification of the audit opinion, subject to outstanding matters detailed below:

- Defined benefit pension liability – an error has been identified by the auditor for the Greater Manchester Pension Fund which if material will affect all GM local authority accounts for 2021/22.
- Cash flow statement – an updated cash flow statement has been provided to correct a non-trivial balance with support from external experts due to the complexity and scale of GMCA transactions.
- Final audit opinion on revised consolidated financial statements which have been amended following initial review of draft group accounts.

7.2 Mazars will review a final set of financial statements on completion of the above in April 2023. The Audit Committee is recommended to delegate to the GMCA Treasurer, in consultation with the Audit Committee chair the publication of the final accounts following completion of the audit, assuming no change to the audit opinion or material change to the group financial statements.



## **8. LETTER OF REPRESENTATION**

- 8.1 Appendix 1 contains the proposed letter of representation from the GMCA Treasurer to the authority's external auditors. This is presented for the committee members to note.

## **9 RECOMMENDATIONS**

- 9.1 Recommendations are set out at the front of the report.