Audit Strategy Memorandum

Greater Manchester Combined Authority

Year ending 31 March 2023

Contents

mazars

Members of the Audit Committee
Greater Manchester Combined Authority
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Mazars LLP
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13 March 2024

Dear Sir / Madam

Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Greater Manchester Combined Authority for the year ending 31 March 2023. 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, and explains the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

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 0161 238 9248.

Yours faithfully

Karen Murray

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 (GMCA) for the year to 31 March 2023. 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

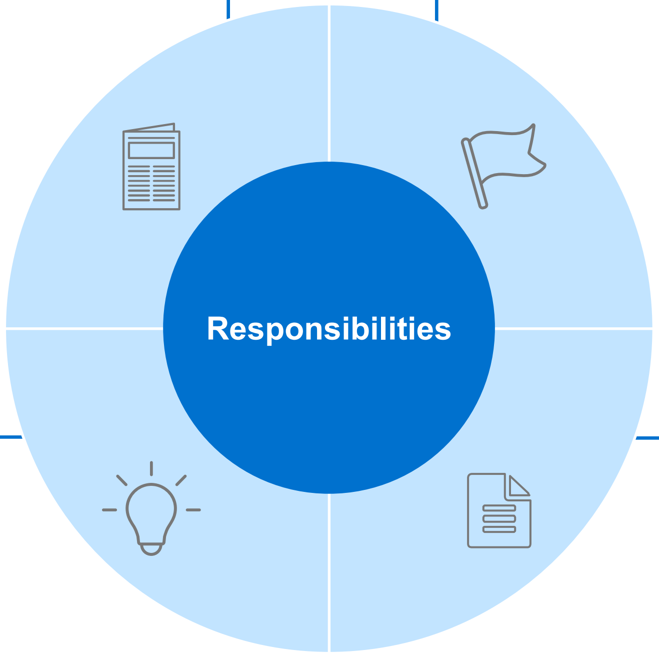
We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The Chief Finance Officer is responsible for the assessment of whether is it appropriate for GMCA 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 GMCA 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 GMCA'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 GMCA 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

Below is your audit engagement team and their contact details.

Karen Murray

Role – Engagement Partner

Email: karen.murray@mazars.co.uk

Telephone: 0161 238 9248

Dawn Watson

Role – Engagement Manager

Email: dawn.watson@mazars.co.uk

Telephone: 0161 238 9238

Joe Broom

Role – Engagement Assistant Manager

Email: joe.broom@mazars.co.uk

Telephone: 0161 238 9251

In addition, an engagement quality reviewer has been appointed for this engagement.

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit is designed to comply 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 is 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 the risks identified.

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.

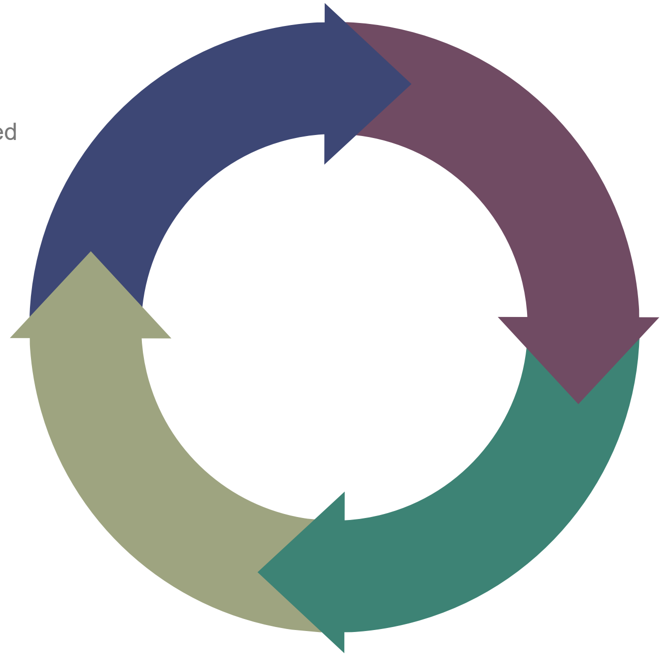
3. Audit scope, approach and timeline

Planning and Risk Assessment - January & February 2024

- Planning visit and developing our understanding of the GMCA
- 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
- Risk assessment analytical procedures
- Determination of materiality

Interim January – February 2024

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion - April 2024

- Final review and disclosure checklist of financial statements
- Final partner and EQCR review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the independent auditor’s report

Fieldwork – February to April 2024

- Receiving and reviewing draft financial statements including review by our technical accounting team
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Partner and EQR review
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

We will liaise with internal audit to understand the findings from any work they have undertaken. We will use this to modify the nature, extent and timing of our audit procedures where possible. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the [Council] 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 [Council] and our planned audit approach.

Items of account	Service organisation	Audit approach
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.

Management's and our experts

Management makes use of experts in specific areas when preparing the [Council]'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 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.
Equity Investments	Core Investment Team	For the valuation of the Authority's equity Investments we will engage our internal valuations team to review 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.

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
- Greater Manchester Evergreen 2 Limited Partnership (GME2LP)

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.

Our approach is set out on page 13.

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 2021/22 because their inclusion would not materially alter the accounts. We understand this will be the same in 2022/23 but we will revisit and review management's assessment of the Group for 2022/23.

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.

3. Audit scope, approach and timeline

Group audit approach - continued.

The approach to the Group audit is set out below:

Entity	Auditor	Scope	Planned Approach
Chief Constable of Greater Manchester Police (GMP)	Mazars LLP	Full Scope Audit Procedures	We will: • complete full-scope audit procedures on the GMP's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Transport for Greater Manchester (TFGM)	Mazars LLP	Full Scope Audit procedures	We will: • complete full-scope audit procedures on TFGM's financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
NW Evergreen Holdings Limited Partnership (NWEH)	TC Group	Specified 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 NWEH'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 Fund of Funds Limited partnership FoF)	TC Group	Specified Procedures	Our work will be focused on the material elements of FOF's financial statements. We will: • complete analytical procedures on FOF's financial statements; and • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Greater Manchester Evergreen 2 Limited partnership (GME2LP)	TC Group	Specified Procedures	Our work will be focused on the material elements of GME2LP's financial statements. We will: • complete analytical procedures on GME2LP's financial statements; and • review the consolidation process and adjustments made by GMCA in preparing group financial statements.

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

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls and revenue recognition.

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:

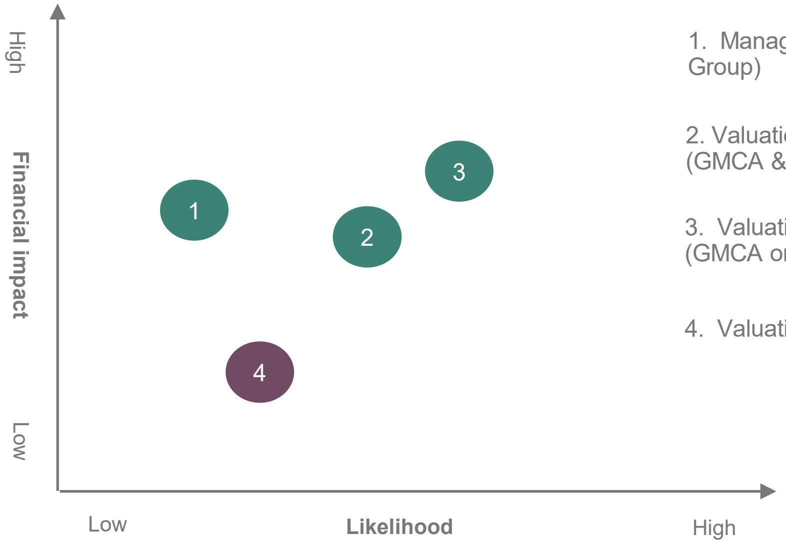
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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 and other enhanced risks in respect of the GMCA . We have summarised our audit response to these risks on the next page.



1. Management override of controls (GMCA & Group)
2. Valuation of the net defined benefit liability/asset (GMCA & Group)
3. Valuation of property, plant and equipment (GMCA only)
4. Valuation of Equity Investments (GMCA only)

Key: Significant risk   Enhanced risk / significant management judgement

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 (GMCA and Group)** 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 by performing audit work on: • over 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 - continued

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit liability valuation (GMCA and Group)** The net pension liability represents a material element of GMCA's balance sheet. GMCA's liability is split between the Greater Manchester Pension Scheme and the Fire Fighters Pension Scheme. The valuation of the pension schemes' liabilities rely on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in GMCA's overall valuations. There are financial assumptions and demographic assumptions used in the calculation of GMCA's valuations, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of GMCA'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 GMCA's pension obligations are not reasonable or appropriate to GMCA's circumstances. This could have a material impact to the net pension liability in 2022/23.	○	●	●	In relation to the valuation of GMCA'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 obtain confirmation that the controls are designed and implemented appropriately. 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 valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; • Agree the data in the IAS 19 valuation reports provided by the Funds' Actuaries for accounting purposes to the pension accounting entries and disclosures in GMCA's financial statements; • Review the asset ceiling calculation, including reviewing the appropriateness of the assumptions and inputs used in the asset ceiling calculation.

4. Significant risks and other key judgement areas

Significant risks - continued

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of property, plant and equipment (GMCA only)** 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, 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; • As Fire and Police assets are revalued before 31/03/23 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; and • Critically assess the approach that the Authority adopts to ensure that assets not subject to revaluation in 2022/23 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 Risk

	Description	Fraud	Error	Judgement	Planned response
4	**Valuation of Equity Investments (GMCA only)** The valuation of the investments involves the use of a management expert (the Core Investment Team), and incorporates assumptions and estimates which impact on the reported value. The level of estimation uncertainty creates an enhanced audit risk.	○	●	●	In relation to the valuation of equity investments we will: • engaged the Mazars valuation team to undertake a review of a sample of equity investment valuations; • reviewed the classification of equity investments under the requirements of IFRS 9 Financial Instruments; and • reviewed the classification of fair value movements posted as a result of changes in valuations.

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 GMCA 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.

2022/23 will be the third 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 GMCA 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 GMCA'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 GMCA plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how GMCA ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how GMCA 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 GMCA'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 GMCA 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.

The following pages set out more detail on our work to follow up on weaknesses identified in previous years

Planning and risk assessment	Obtaining an understanding of GMCA'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 GMCA.

5. Value for money

Our work to follow-up on previous recommendations

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendations	Planned procedures for 2022/23
Oversight of Greater Manchester Police On the 10 December 2020 HMICFRS published "An inspection of the service provided to victims of crime by Greater Manchester Police". HMICFRS found that in too many cases, the service provided was not good enough and the report highlighted a number of 'causes of concern' relating to crime reporting. The HMICFRS report also highlighted that the force had not overcome the deficiencies in service that it identified in its 2019 integrated police effectiveness, efficiency and legitimacy programme (PEEL) assessment and its 2018 crime data integrity inspection. The extent of the failings detailed within the December 2020 HMICFRS inspection report and GMP's failure to secure the improvements identified by HMICFRS in its previous inspections / assessments highlight not only significant weaknesses in the services provided to victims of crime, but also significant weaknesses in the Force's Governance and Performance Management arrangements. On 3 March 2022 HMICFRS published the findings from their 2021/22 PEEL assessment. This assessed how good GMP is in ten areas of policing and made graded judgments in nine of these ten areas. This was GMP's first full PEEL assessment since 2018/19. GMP was judged "inadequate" in three areas (investigating crime, responding to the public and developing a positive workplace). In addition, HMICFRS raised 4 causes of concern, relating to GMP's arrangements: for responding to those who are vulnerable; for supporting and building its workforce; for understanding demand and the capability/ capacity of its workforce; and for investigating crime, supervising investigations and updating victims. Although the PEEL assessment was not published until March 2022 much of the data and intelligence used by HMICFRS when assessing GMP's arrangements is based on the financial year ended 31 March 2021. Therefore, this is indicative of the issues identified being applicable to the 2020/21 financial year. In our view, the above matters represent a significant weakness in value for money arrangements for GMCA due to the oversight responsibilities which The Mayor and Deputy Mayor have over GMP's governance arrangements and in its arrangements for: • improving economy, efficiency and effectiveness in how GMP uses information about its performance to improve the way it manages and delivers its services; and • how it makes informed decisions and properly manages its risks.	Governance Improving the 3 Es	GMCA should continue the steps taken during 2021/22 to improve its governance structures and performance management framework in relation to the Mayor's oversight responsibilities for GMP. This should include: • using performance management information to assess the performance of GMP to identify areas for improvement; • monitoring progress made by GMP to address the causes of concern, recommendations and areas for improvement reported in the HMICFRS report and subsequent PEEL assessment; • ensuring effective oversight processes and systems are in place to communicate relevant, accurate and timely management information and that corrective action is taken where needed; and • taking properly informed decisions, supported by appropriate evidence, allowing for challenge and transparency. GMCA should formally review the new arrangements with GMP to ensure that the changes are embedded and are starting to deliver the required improvements in service performance.	We will review: • progress made in improving its governance structures and performance management framework in relation to the Mayor's oversight responsibilities for GMP. • monitoring of the progress made in addressing the causes of concern recommendations and areas for improvement reported in the HMICFRS report and subsequent PEEL assessments., • oversight processes and systems to ensure communication of relevant, accurate and timely information included identification of any corrective actions • GMCA's review of the new arrangements within GMP that are required to produce service improvements

5. Value for money

Our work to follow-up on previous recommendations - continued

Previously identified significant weakness in arrangements	Relevant reporting criteria	Our 2021/22 recommendations	Planned procedures for 2022/23
Greater Manchester Fire and Rescue Service Cause of Concern In May 2017, GMCA became the Fire and Rescue Authority for Greater Manchester. The fire service, as part of GMCA, operates as Greater Manchester Fire and Rescue Service (GMFRS). In December 2021 HMICFRS published the results of its inspection of Greater Manchester Fire and Rescue Service (GMFRS). This rated the service as requiring improvement in the effectiveness and efficiency areas, and good in the people area. Within the report, HMICFRS raised a cause of concern, relating to GMFRS' arrangements for responding to marauding terrorist attacks and working as part of a multi-agency response to terrorist attacks. In particular the report highlighted issues in the sustainability of current arrangements which were due to run out, and the suspension of training of non-specialised firefighters for marauding terrorist attacks. Although the HMICFRS assessment was not published until December 2021, much of the data and intelligence used by HMICFRS when assessing GMFRS' arrangements is based on the financial year ended 31 March 2021. Therefore, this is indicative of the issues identified being applicable to the 2020/21 financial year. In our view, the cause of concern represents a significant weakness in the Authority's value for money arrangements. In particular, and linked to our "Governance" and "Improving Economy, Efficiency and Effectiveness" value for money reporting criteria: • how the Authority evaluates the services it provides and how performance information has been used to assess performance and identify areas for improvement; and • how the Authority ensures effective processes and systems are in place to support properly informed decision making, and to ensure corrective action is taken where needed.	Governance Improving the 3 Es	GMCA should continue the steps taken during 2021/22, to respond to the findings of the HMICFRS inspection of Greater Manchester Fire and Rescue Service, including: • developing a formal action plan to address the findings of the HMICFRS report, including both the cause of concern and the wider areas for improvement; • ensuring effective processes and systems are in place to monitor progress against the action plan; and • providing regular reports to the Police, Fire and Crime Panel to advise on progress against the action plan, and to allow for sufficient scrutiny of progress made to date.	We will review: • the formal action plan to address the findings of the HMICFRS report including the cause for concern and the wider areas for improvement, • the processes and systems established to monitor progress against the action plan • reports to Police, Fire and Crime Panel that advise on progress made against the action plan.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as GMCA's appointed auditor

At this stage of the audit we have set our proposed fees in the table below. We will report any expected changes to the Audit Committee through the year, and at the completion of our audit work.

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
Planned fee in respect of our work under the Code of Audit Practice	£70,000	£70,000
Additional testing on Defined Benefit Pensions Schemes (including work on the triennial revaluation) and Property, Plant and Equipment[1]	£23,750	£32,500
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]	£2,500	£2,500
Implementation of new ISA315 (revised)[3]	TBC	-
Additional testing on the Authority's investments held at fair value including use of experts	£8,000	£8,000
Additional testing arising from the implementation of the statutory override in respect of infrastructure assets	-	£10,000
Additional testing arising from errors identified in the financial statements including cash flow and group accounts	-	£17,750
Additional work arising from the change in the Code of Audit Practice and VFM reporting[4]	£15,000	£15,000
Additional work arising from the follow up of prior year VFM risks	£4,000	£6,250
Total fees	**£123,250[5]**	**£162,000**

[1] As previously reported to you, the scale fee requires adjusted 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 will lead to additional audit work not reflected in the scale fee.

[3] In 2022/23, we are required to implement the new international auditing standards (ISA 315R) in our audits which requires. See page 34 for details

[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 will require additional audit input. The final fee will take into account the extent and complexity of any significant weaknesses in arrangements we identify

[5] This is a proposed fee for 2022/23 at the point of the issue of our ASM. This figure is subject to change and additional costs will be discussed with management.

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 Karen Murray in the first instance.

Prior to the provision of any non-audit services Karen Murray 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	37,000	44,000
Performance materiality	20,350	24,200
Specific materiality – Senior officer remuneration disclosures (including any associated exit packages)	5	5
Trivial threshold for errors to be reported to the Audit Committee	1,110	1,320

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

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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 2022/23 draft accounts we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £37m (£35m in the prior year).

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

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Due to the number of errors identified in the prior year we have maintained performance materiality at 55%.

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 £1,110k based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Karen Murray.

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).

A

Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Appendix A: Key communication points

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;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- 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 A: Key communication points

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

Required communication	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 A: 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 A: 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

Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for GMCA's 2022/23 audit.

The most significant changes relevant to the GMCA audit are outlined below.

Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

Karen Murray, Key Audit Partner

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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