Annual Audit Letter

Greater Manchester Combined Authority

Year ending 31 March 2019

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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Greater Manchester Combined Authority (the Authority) for the year ended 31 March 2019. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 30 September 2019 included our opinion that the financial statements: • give a true and fair view of the Authority's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
Other information published alongside the audited financial statements	Our auditor's report issued on 30 September 2019 included our opinion that: t he other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	Our work on the Authority's WGA return is in progress. We are awaiting a revised WGA return in order to complete our work and report to the NAO.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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

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

Our auditor's report, issued to the Authority on 30 September 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.5% of gross operating expenditure.	£23.761m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.713m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk by carrying out work in the following areas: • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements	There were no issues to report from our work on this significant risk.
Property, Plant and Equipment Valuation The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The valuation of property, plant & equipment involves the use of a management experts (the valuers), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process. In addition, 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 relation to the assets which had been revalued during 2018/19 , we assessed the Authority's valuers' qualifications, objectivity and independence to carry out such valuations, and reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations. We reviewed the approach that the Authority adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and we considered the robustness of that approach in light of the valuation information reported by the Authority's valuers. In addition, we considered the movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.	There were no issues to report from our work on this significant risk

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
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 also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Authority's pension obligation are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2018/19.	In relation to the valuation of the Authority's defined benefit pension liability we : • critically assessed 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); • liaised 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; • reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and • agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements • reviewed the Authority's assessment of the impact of GMP and McCloud legal rulings on its pension liability.	Legal rulings in respect of GMP equalisation and the McCloud case relating to transitional provisions created additional defined benefit liabilities. These matters were not taken into account in the actuaries' estimates of the defined benefit liability in the draft accounts. Management has obtained revised estimates and the statement of accounts were updated, increasing the Authority's pension liability by £71.624m.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

Description of deficiency	The draft statement of accounts were submitted late due to issues in the accounts preparation system identified late in the process. As a result of this the finance team had to manually prepare the statement of accounts at short notice
Potential effects	The limited amount of time available for preparing the accounts led to a number of material errors which we identified during the audit process. While none of these impacted on the reported general fund balance there is a risk that fundamental errors in the Authority's reported position could be caused by a reoccurrence..
Recommendation	Management should complete a debrief of the accounts preparation process to identify how this situation can be avoided in future years, and ensure appropriate contingency is place.
Management response	Agreed, A debrief will be concluded by 31st October 2019 with a full contingency plan for the 2019/20 accounts. Responsible Officers – Amanda Fox / Helen Fountain
Description of deficiency	Our testing of assets under construction identified one asset which had become operational in 2017 but had not been reclassified as operational in the statement of accounts.
Potential effects	Failure to reclassify an asset as operational on a timely basis results in depreciation not being charged from the appropriate period and an understatement of reported expenditure.
Recommendation	Management should implement a process for regular review of assets-under construction to ensure these are reclassified as operational and depreciation charged on a timely basis.
Management response	Agreed, discussions will be held with relevant parties to ensure that assessments are completed prior to the year end to reclassify assets as appropriate to ensure that the correct depreciation is charged in the accounts. Target date 31st Jan 2020, Responsible Officers – Amanda Fox / Helen Fountain

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Authority on 30 September 2019, stated that that, is all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019.

The following pages set out our considerations against each sub-criteria in forming our conclusion.

3. VALUE FOR MONEY CONCLUSION

Our findings

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Combined Authority membership is comprised of one elected member from each of the ten Greater Manchester councils and the Mayor of Greater Manchester. It is governed by a Constitution including all of the normal features of an effective governance framework in local government. The Authority's Monitoring Officer undertook a review of the Constitution in June 2018 to ensure it reflected the current responsibilities of the Mayor and GMCA. The Greater Manchester Strategy 'Our People Our Place' sets out ten priorities which include children starting school ready to learn, safer and stronger communities and an age friendly Greater Manchester. Delivery is monitored via reports to Combined Authority meetings and supported by a comprehensive implementation plan and performance dashboards for each priority. The Authority's financial position is reported to Combined Authority meetings on a regular basis including detail on each of the Authority's responsibilities. PCC finances are not reported to the Authority but dealt with directly in meetings with the Deputy Mayor. The Authority's risk register is actively monitored at meetings of the Audit Committee and the Audit Committee oversees the governance framework including the work of internal audit. The Authority has adapted the work of Internal Audit throughout the year to provide assurance on key risk areas such as the procurement of the new waste contract and to support the preparation for HMICFRS' review. The Authority's Annual Governance Statement includes a balanced assessment of the effectiveness of its governance arrangements and identifies appropriate areas for further improvement.	Yes
Sustainable resource deployment	The Authority continues to manage its financial position effectively with balanced budgets set for 2018/19 and 2019/20. The Authority recognises savings are required over the medium term to cover the budget shortfall in the Fire and Rescue Service. The Authority is undertaking a whole service review of the Fire and Rescue Service and has developed a range of options to deliver savings through the Programme for Change. The Authority continues to deliver its financial plans and the 2018/19 outturn achieved a £2,166k underspend against the GMCA and Mayoral General budget following transfers to earmarked reserves. The level of General Fund balances at year end totalled £459m which is sufficient to support the Authority's functions over the medium-term.	Yes

3. VALUE FOR MONEY CONCLUSION

Our audit findings

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Authority works with a range of third parties to deliver the Greater Manchester Strategy. The Authority works closely with other public sector organisations across Greater Manchester. For example the Authority is working with Councils to implement the GM Full Fibre Programme which aims to transform the digital infrastructure in Greater Manchester. With devolution of the Adult Education Budget, due to commence from 1 August 2019, the Authority has worked closely with existing service providers to develop transitional arrangements and a commissioning approach to support the Greater Manchester ambition.	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

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

Risk	Work undertaken	Conclusion
Expansion of Greater Manchester Combined Authority's Responsibilities GMCA is currently undergoing a significant reorganisation following the transfer of functions from GM OPCC and GMFRS in 2017/18, and GMWDA in 2018/19. As a result of this significant work is taking place with regards to the integration of personnel and governance arrangements across the Authority. As part of this, and in response to the findings of the Kerslake Report into the Manchester Arena attack, the Authority is undertaking a 'Programme for Change' to transform the fire service. This risk links to the Authority's arrangements for informed decision making through its governance arrangements and maintaining a sound system of internal control.	We discussed the progress of integrating services across the Authority with officers and reviewed minutes of the Service Integration Programme Board, noting the actions being taken to align policies and procedures across the organisation. Through discussion with officers we reviewed the governance structures in place to manage the Programme for Change and how this addresses the findings from the Kerslake Report. We reviewed the Outline Business Case and evidence underpinning the proposals set out within the report. At the time of writing this report the public consultation has now completed and Officers are in the process of reviewing responses before a way forward is agreed. In June 2019 HMICFRS released its first inspection of the Fire and Rescue Service in Greater Manchester, giving an overall opinion of 'Requires Improvement'. We have discussed the steps taken by management to address the findings from this report, a number of which will be achieved through the Programme for Change.	We conclude that for 2018/19 the Authority has made proper arrangements to deliver its expanded responsibilities.

Significant audit risks continued

Risk	Work undertaken	Conclusion
Re-tender of Waste Services Contract GMCA is in the process of procuring a new provider of waste disposal services following the decision of GMWDA to terminate the PFI contract in 2017/18. The contract will be material to the operations of the Combined Authority and the Authority is utilising expertise from a variety of organisations to ensure the procurement process delivers value for money. There is a risk that without proper governance arrangements in place, the procurement of the waste contract will not deliver value for money. This links to the sustainable resource deployment sub-criteria.	We reviewed the arrangements in place for the procurement process through discussions with officers noting the role of the Commercial Steering Group in managing the process with regular reporting to Combined Authority meetings. We note that external advice was sought where necessary and used to ensure learning from the previous contract was embedded within the procurement process. The Authority's Internal Audit team completed a review of the process prior to the final decision being made and provided a 'substantial assurance' opinion over the process. The new contract is now in place and the Authority has recruited additional support to the contract monitoring and performance management process.	We conclude that for 2018/19 the Authority has made proper arrangements to deliver value- or money through its procurement of the waste services contract.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**In progress**
Other information published alongside the audited financial statements	**Consistent**

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

Matters on which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

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

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We are awaiting a revised WGA return based on the Authority's audited statement of accounts before we can complete our work.

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum which we presented to the Audit Committee in January 2019.

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£74,000	TBD*

*Our final fee will be determined following completion of the work on the Authority's whole of government accounts return. This will take account of the additional work required in respect of material errors identified in the Authority's statement of accounts.

Fees for other work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by the Authority to carry out additional work as set out in the table below.

Area of work	2018/19 proposed fee	2018/19 final fee
Regional Growth Fund Grants Assurance	£3,385	£3,385

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Local Government Finance Settlement

The Authority will need to incorporate the outcome of the Provisional Local Government Finance Settlement, published in December 2019, in its future budgets. The settlement sets out provisional allocations for 2020/21. The Authority recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge any funding gaps through planned expenditure reductions and/ or income generation schemes.

The UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 Leases in the Code is delayed until 1 April 2020. The Authority will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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