

Audit Strategy Memorandum

Greater Manchester Combined Authority

Year ending 31 March 2020





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This document is to be regarded as confidential to Greater Manchester Combined Authority. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Members of the Audit Committee
Greater Manchester Combined Authority
Churchgate House
56 Oxford Street
Manchester
M1 6EU

6 April 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Greater Manchester Combined Authority for the year ending 31 March 2020

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.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously 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 0113 394 5316.

Yours faithfully



Mark Dalton
Director
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Greater Manchester Combined Authority (the Authority) for the year to 31 March 2020. 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

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Authority for the year.

Value for Money

We are required to conclude whether the Authority has proper arrangements 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.

Reporting to the NAO

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

Electors' rights

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

Our audit does not relieve management or those charged with governance, of their responsibilities. 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. 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.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Audit Committee as those charged with governance.



2. YOUR AUDIT ENGAGEMENT TEAM



- Mark Dalton - Director
- Mark.dalton@mazars.co.uk
- 0113 394 5316 / 07795 506766



- Daniel Watson – Senior Manager
- Daniel.watson@mazars.co.uk
- 0161 238 9349 / 07909 985324



- Amelia Payton – Assistant Manager
- Amelia.payton@mazars.co.uk
- 0161 238 9308 / 07823 521012

In addition as outlined in our engagement pack an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected 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.

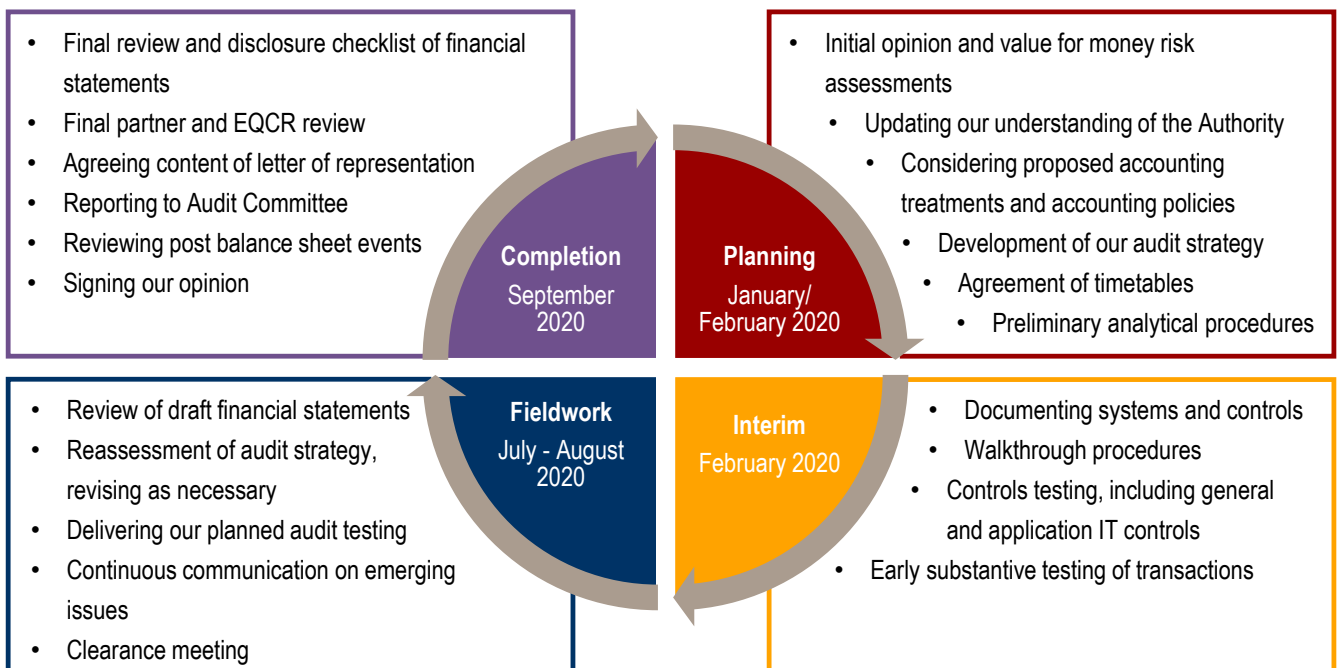
Audit approach

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

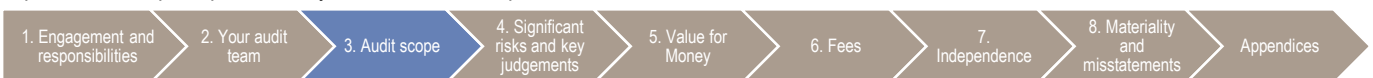
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures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

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

The diagram below outlines the procedures we perform at the different stages of the audit.



We have agreed with the Treasurer to complete the audit and report to those charged with governance by 30 September 2020. This extended timescale is in line with the MHCLG announcement that for the 2019/20 accounting period we would be extending the period for publication of principal authority accounts to 30 September 2020



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

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

Management's and our experts

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

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

Service organisations

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

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

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

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)

Mazars UK are the appointed auditor for the Chief Constable and Transport for Greater Manchester. As such we are the appointed auditor, and Mark Dalton is the RI, for 99% of the Group’s total expenditure.

The approach to the Group audit is set out below:

Entity	Level of response	Risks identified	Planned audit approach
Chief Constable of Greater Manchester Police	Full-scope audit procedures	Management Override of Controls Valuation of Net Pension Liability	We will: <ul style="list-style-type: none"> • complete full-scope audit procedures on the Chief Constable of Greater Manchester’s financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
Transport for Greater Manchester	Full-scope audit procedures	Management Override of Controls Fraud in Revenue Recognition Valuation of Property, Plant and Equipment Valuation of Net Pension Liability	We will: <ul style="list-style-type: none"> • complete full-scope audit procedures on Transport for Greater Manchester’s financial statements; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.
NW Evergreen Holdings Limited Partnership	Desktop analytical procedures plus specified audit procedures over trade receivables	None	We will: <ul style="list-style-type: none"> • complete analytical procedures on NW Evergreen Holdings Limited Partnership’s financial statements; • As the group audit team we will undertake specific audit procedures over trade receivables balance; • review the consolidation process and adjustments made by GMCA in preparing group financial statements.

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. Greater Manchester Fund of Funds Limited Partnership, 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 2018/19 because their inclusion would not materially alter the accounts. We will revisit management’s assessment of the Group for 2019/20.

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. Based on our initial planning discussions we do not consider these significant risks to be risks for the component subsidiary companies.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

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

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

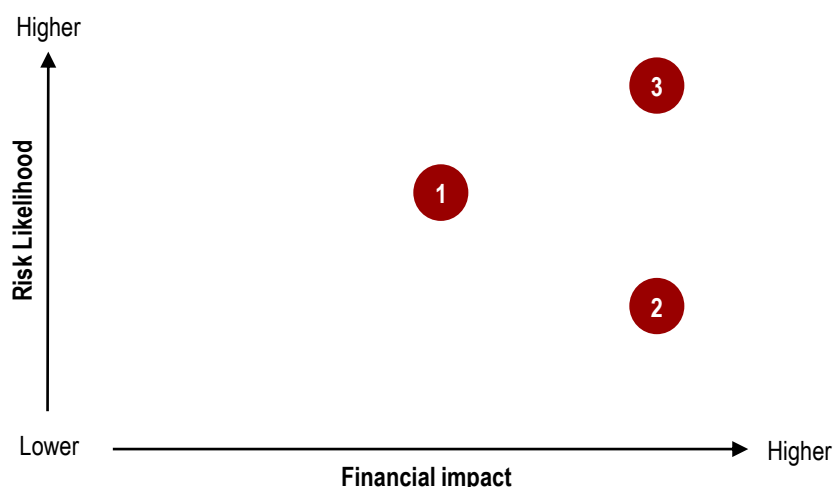
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- 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, 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.

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



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. 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 of risk	Planned response
1	<p>Management override of controls</p> <p>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.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Valuation of Property, Plant & Equipment</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.</p> <p>The valuation of Property, Plant & Equipment involves the use of a management expert (the valuers), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken through the year there is a risk that the fair value as the assets is materially different at the year end.</p> <p>The estimation uncertainty of such valuations is further increased as a result of the market impact of COVID-19. The Royal Institute of Chartered Surveyors (RICS) has also issued a Valuation Practice Alert (VPA), which guides valuers to consider the use of material uncertainty declarations in their valuation reports.</p>	<p>In relation to the valuation of property, plant & equipment we will:</p> <ul style="list-style-type: none"> • Critically assess the Authority's valuer's scope of work, qualifications, objectivity and independence to carry out the Authority's programme of revaluations; • Consider whether the overall revaluation methodology used by the Authority's valuers is in line with industry practice, the CIPFA Code of Practice and the Authority's accounting policies; • Reconcile the valuer's report to the fixed asset register and ensure that the values per the report have been correctly input, in total, to the asset register; • Critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's calculations (including in relation to COVID-19), using available third party evidence; • Review the basis of valuation and confirm that this is appropriate and agrees to the asset register; • Critically assess the treatment of the upward and downward revaluations in the Authority's financial statements with regards to the requirements of the CIPFA Code of Practice; and • Assess the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; • Critically assess the approach that the Authority adopts to ensure that assets not subject to revaluation in 2019/20 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 KEY JUDGEMENT AREAS (CONTINUED)

Significant risks

	Description of risk	Planned response
3	<p>Valuation of Defined Benefit Pension Liability</p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority's liability is split between the Greater Manchester Pension Scheme and the Fire Fighters Pension Scheme.</p> <p>The valuation of the pension scheme liabilities relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Authority's pension obligation are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2019/20.</p> <p>The risk has increased as a result of the market uncertainties arising from the impact of COVID-19.</p>	<p>In relation to the valuation of the Authority's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the Greater Manchester Pension Fund's Actuary, Hymans Robertson and the Fire Fighters Pension Scheme Actuary, the Government Actuary Department (GAD); Liaise with the auditors of the Greater Manchester Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund 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; Agree the data in the IAS 19 valuation report provided by the Funds Actuaries for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements. Given the market uncertainties arising from the impact of Coronavirus, we may require GMCA to obtain an additional valuation of the pension liability as at 31 March 2020, to update the 31 December 2019 valuation where estimates are applied for the final three months of the financial year. A further valuation would incorporate actual performance.

Revenue recognition

International Standard on Auditing (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector. We also consider that there are limited incentives and opportunities to manipulate the way income is recognised in local government.

Based on our understanding of the Authority's revenue streams we have rebutted the presumption that revenue recognition is a significant risk at the Authority. Our testing of revenue is focused on our standard procedures and does not incorporate specific work on the risk of fraud in recognising revenue.



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement / enhanced risk	Planned response
1	<p>Private Finance Initiative (PFI) scheme</p> <p>The Authority has no new PFI schemes in 2019/20. However, the Authority continues to make judgements that result in the Authority's accounting for the PFI assets and liabilities in its financial statements.</p>	<p>We will consider the continued accounting treatment of the PFI scheme assets and liabilities as being in the Authority's financial statements</p>

5. VALUE FOR MONEY

Our approach to Value for Money

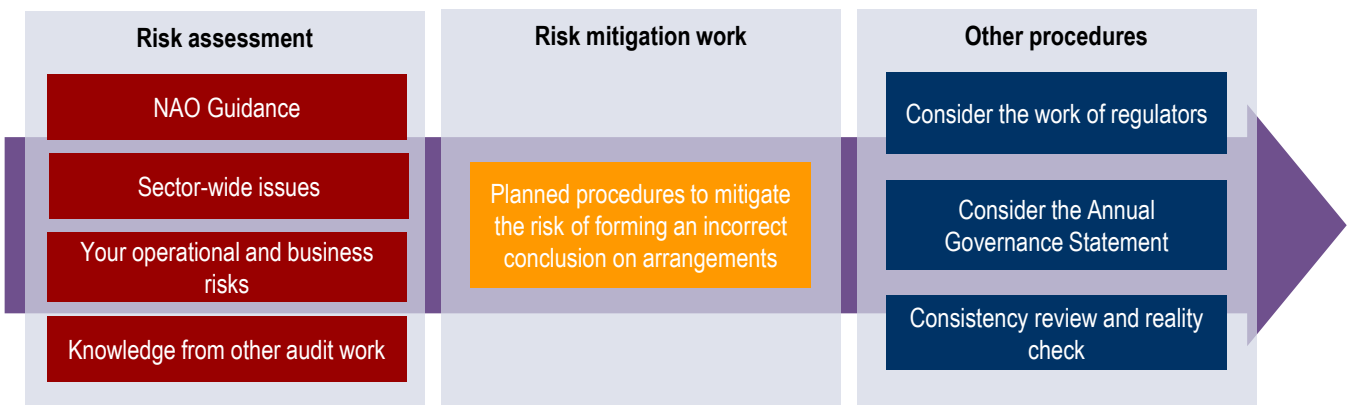
We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM 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. As outlined above, we draw on our deep understanding of the Authority and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have set out below a significant risk to our VFM conclusion. In addition we have still to complete our consideration of other possible risk areas, in particular GMCA's response to the review of 'Operation Augusta' to ensure the outcomes of the review are addressed.

Description of significant risk	Planned response
<p>Programme for Change</p> <p>The Programme for Change Outline Business Case sets out a transformational programme for Greater Manchester Fire and Rescue Service. Following a period of public consultation a number of amendments were made to the Outline Business Case in September 2019.</p> <p>There is a risk that, without effective governance arrangements in place, the Programme for Change will not deliver the service transformation in a sustainable manner.</p>	<p>We will review the governance arrangements in place to address the findings of the public consultation and how these influenced the decision making process in respect of the Outline Business Case.</p> <p>We will keep up to date on the progress in developing and implementing the Programme for Change up to the date of issuing our Value for Money Conclusion.</p>



5. VALUE FOR MONEY

Significant Value for Money risks continued

Description of significant risk	Planned response
<p>Bus Reform</p> <p>The Bus Services Act 2017 gave Greater Manchester Combined Authority new powers to reform the local bus market.</p> <p>The Mayor of Greater Manchester is considering the outcomes from a public consultation on a proposed bus franchising scheme which took place during 2019/20.</p> <p>There is a risk that, without effective governance arrangements in place, the decision over the future of bus services in Greater Manchester will not deliver value for money.</p>	<p>We will review the governance arrangements in place behind the decision making process, including how the Authority has sought external advice where necessary.</p> <p>We will keep up to date on the progress in developing and implement the Programme for Change up to the date of issuing our Value for Money Conclusion.</p>



6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Authority's appointed auditor

We have agreed an ongoing fee for the 2019/20 audit and beyond with the Authority's Treasurer based on our risk assessment of the Authority. This is subject to PSAA approval.

Service	2018/19 fee	2019/20 fee
Code audit work	74,000	70,000

We have not yet completed our work on the Authority's Whole of Government Accounts return for 2018/19 due to delays in receiving the return and errors identified in the original draft. We will agree an additional fee in respect of 2018/19 with the Authority Treasurer and PSAA once this work is completed.

Fees for non-PSAA 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. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Service	2018/19 fee	2019/20 fee
Regional Growth Fund Grants Assurance	£3,385	N/a

Services provided to other entities within the Authority's group

Through the PSAA procurement process we are also the appointed auditor for two of the Authority's group bodies. Our fees in respect of these are set out below.

Service	2018/19 fee	2019/20 fee
Transport for Greater Manchester	£33,672	£33,672
Chief Constable of Greater Manchester Police	£42,000	£42,000



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 Financial Reporting Council'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:

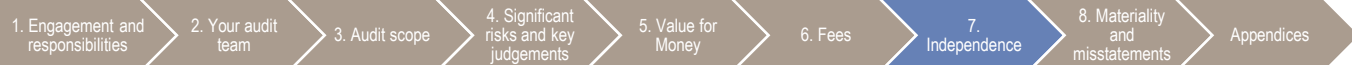
- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- 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, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Dalton in the first instance.

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

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



8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group threshold (£'000)	GMCA threshold (£'000s)
Overall materiality	35,000	25,000
Performance materiality	17,500	12,500
Trivial threshold for errors to be reported to the Audit Committee	1,050	750

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

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

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

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

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

Our provisional materiality is set based on a benchmark of Gross Revenue Expenditure at Surplus/deficit on Provision of Services. 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 Gross Revenue Expenditure at 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.

We expect to set a materiality threshold at approximately 1.6% of Gross Revenue Expenditure at Surplus/deficit on Provision of Services.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on the prior year financial statements we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £35m (group) and £25m (GMCA single entity) (£23.5m and £19.8m respectively 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. Our initial assessment of performance materiality is based on our knowledge of the Authority's closedown procedures and financial statements from the prior year. Due to the number of errors identified during the 2018/19 audit process we have applied 50% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'s)
Officer Remuneration bandings	£5,000*
Related party transactions	£50,000

*Reflecting movement from one salary band to another

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

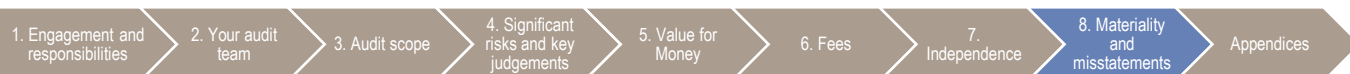
Misstatements

We aggregate 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 £1,050k (group) and £750k (GMCA single entity) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Mark Dalton.

Reporting to the Audit Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences 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).



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	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
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	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	<p>The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies.</p> <p>The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet.</p> <p>In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.</p>

1. Engagement and responsibilities

2. Your audit team

3. Audit scope

4. Significant risks and key judgements

5. Value for Money

6. Fees

7. Independence

8. Materiality and misstatements

Appendices