The Audit Findings (ISA260) Report for Greater Manchester Combined Authority

Year ended 31 March 2017
11 September 2017

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11 September 2017
Dear Members of the Audit Committee

Audit Findings for Greater Manchester Combined Authority (GMCA) for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of GMCA, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) (‘ISA (UK&I)’), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mark Heap, Engagement Lead

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A Action Plan

B Audit opinion (proposed)
Section 1: Executive summary
Executive summary

**Purpose of this report**

This report highlights the key issues affecting the results of Greater Manchester Combined Authority (‘GMCA’) and the preparation of the group and GMCA’s financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 (‘the Act’).

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (‘the value for money (VFM) conclusion’). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public’s attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

**Introduction**

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 4 April 2017, with the exception of the audit assurance required over the additional GMCA subsidiary, NW Evergreen Holdings Limited Partnership (Evergreen 1).

This company, where GMCA is the sole shareholder, was identified by management and consolidated into the group accounts after the submission of the initial draft accounts. As such, the scope of our group audit approach had to be revised to take into account the assurance required over the company’s financial performance.

At the time of drafting this report, our audit is in progress and we are currently finalising our procedures in the following areas:

- completion of testing and review of the work done on sections of our audit file, including grants, debtors, creditors, loans to entities and operating expenses
- reviewing the agreement of the accounts back to the trial balance following receipt of the working paper from management
- completion the group accounts audit
Executive summary

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- completing our work on the Whole of Government Accounts return.

Key audit process issues

The finance department has worked hard to deliver the accounts in line with statutory deadline requirements, and to support our audit of the GMCA accounts.

We received draft financial statements and some accompanying working papers on 30 June 2017, in line with the statutory deadline. However, we did experience some delays in receiving certain key working papers until late in our fieldwork. This situation, along with the initial omission from the group accounts of Evergreen and the level of presentational adjustments identified would all suggest that the finance department has experienced some difficulties during the 2016-17 accounts closedown and audit period.

The loss of a key member of the senior finance team (due to illness) for the bulk of our audit fieldwork period also impacted on the progress and completion of the audit.

From next year (2017-18) the statutory deadlines for local authority accounts are being brought forward. The draft accounts deadline is a month earlier, moving from 30 June to 31 May, and the audited accounts deadline is two months earlier, moving from 30 September to 31 July.

This change in timetable will represent a further significant challenge for GMCA.

Finally, there are other key issues also impacting on the 2016-17 accounts closedown and audit period. The loss of a key member of the senior finance team (due to illness) for the bulk of our audit fieldwork period also impacted on the progress and completion of the audit.

Key audit and financial reporting issues

Financial statements opinion

During the audit fieldwork, management identified the omission of Evergreen from the group accounts. Following the inclusion of Evergreen, the group accounts now show a revised surplus on provision of services of £82.7m (compared to £18.8m in the draft accounts) and an increase of £64.2m in the group balance sheet to take into account the increase in assets and useable reserves arising from the inclusion of Evergreen’s balances.

Whilst there are no further significant audit adjustments to date impacting on the primary statements of the group or single entity GMCA accounts, we have identified a large number of presentational adjustments to improve the presentation of the financial statements. These have been discussed and agreed with management and further details are set out in section two of this report.

Subject to the satisfactory completion of the outstanding audit work noted earlier, we anticipate providing a unqualified audit opinion in respect of the financial statements on 29 September 2017 (see our proposed audit opinion at Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council’s Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.
Executive summary

Controls
Roles and responsibilities
GMCA’s management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to GMCA.

Findings
Other than the control issues previously highlighted in relation to the omission of Evergreen and the points raised on the accounts closedown and audit process, our work has not identified any further control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money
Based on our review, we are satisfied that, in all significant respects, the Combined Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties
We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward
Matters arising from the financial statements audit and our review of GMCA’s arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Treasurer and his senior finance team at a meeting on 11 September 2017.

Our recommendations are set out in the Action Plan at Appendix A and have also been discussed and agreed with the Treasurer.

This report is due to be presented to the Audit Committee on 20 September 2017.

Acknowledgement
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
11 September 2017
Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters
Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our Audit Plan, we determined overall materiality to be £6,563,000 for the single entity GMCA accounts and £7,333,000 for the Group (being 1.75% of gross revenue expenditure from 2015-16). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £328,000 for the single entity accounts and £367,000 for the Group. This remains the same as reported in our Audit Plan.

As we reported in our Audit Plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our Plan.

<table>
<thead>
<tr>
<th>Balance / transaction / disclosure</th>
<th>Explanation</th>
<th>Materiality level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosures of officers’ remuneration, salary bandings and exit packages in the notes to the financial statements</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>£20,000</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>£20,000 (Individual misstatements will also be evaluated with reference to how material they are to the other party).</td>
</tr>
</tbody>
</table>

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)
Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our Plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>Work completed</th>
<th>Assurance gained and issues arising</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The revenue cycle includes fraudulent transactions</strong>&lt;br&gt;Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</td>
<td>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at GMCA, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: &lt;ul&gt;• there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including GMCA, mean that all forms of fraud are seen as unacceptable.</td>
<td>Our audit work has not identified any issues in respect of revenue recognition.</td>
</tr>
<tr>
<td><strong>Management over-ride of controls</strong>&lt;br&gt;Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</td>
<td>During the course of our audit we have reviewed: &lt;ul&gt;• entity level controls &lt;br&gt;• journal entry processes and tested a sample of unusual journal entries back to supporting documentation &lt;br&gt;• accounting estimates, judgements and decisions made by management &lt;br&gt;• unusual significant transactions.</td>
<td>Our audit work to date has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.</td>
</tr>
</tbody>
</table>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315). In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks." (ISA (UK&I) 550)
## Audit findings against other risks

In this section we detail our response to the other risk of material misstatement which we identified in the Audit Plan.

<table>
<thead>
<tr>
<th>Transaction cycle</th>
<th>Description of risk</th>
<th>Work completed</th>
<th>Assurance gained &amp; issues arising</th>
</tr>
</thead>
</table>
| **Changes to the presentation of local authority financial statements** | CIPFA has been working on the ‘Telling the Story’ project, the aim of which was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016-17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015-16 comparative figures is also required. | We have undertaken the following work in relation to this risk:  
  • documented and evaluated the process for recording the required financial reporting changes to the 2016-17 financial statements  
  • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council’s internal reporting structure  
  • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)  
  • tested the classification of income and expenditure for 2016-17 recorded within the Cost of Services section of the CIES  
  • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger  
  • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements  
  • reviewed the new segmental reporting disclosures within the 2016-17 financial statements to ensure compliance with the CIPFA Code of Practice. | Our audit work to date has not identified any significant issues in relation to the risk identified. |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.”  
(ISA (UK&I) 315)
## Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

<table>
<thead>
<tr>
<th>Component</th>
<th>Significant?</th>
<th>Level of response required under ISA 600?</th>
<th>Risks identified</th>
<th>Work completed</th>
<th>Assurance gained &amp; issues raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport for Greater Manchester (TfGM)</td>
<td>Yes</td>
<td>Comprehensive</td>
<td>None</td>
<td>We obtained assurance from our audit of TfGM’s 2016-17 financial statements and we reviewed and tested the consolidation of these financial statements into the GMCA group financial statements.</td>
<td>Our audit work identified misstatements relating to the consolidation of TfGM. Further details are included on list of adjustments on pages 19 to 25.</td>
</tr>
<tr>
<td>Greater Manchester Accessible Transport Ltd</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
<td>Our audit work has not identified any issues in respect of the consolidation of Greater Manchester Accessible Transport Limited.</td>
</tr>
<tr>
<td>New Economy</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
<td>Our audit work has not identified any issues in respect of the consolidation of New Economy.</td>
</tr>
<tr>
<td>MIDAS</td>
<td>No</td>
<td>Analytical</td>
<td>None</td>
<td>Desktop analytical procedures review performed by the Grant Thornton audit engagement team.</td>
<td>Our audit work has not identified any issues in respect of the consolidation of MIDAS.</td>
</tr>
</tbody>
</table>

### Additional component identified by management during the course of our audit fieldwork:

| NW Evergreen Holdings Limited Partnership (Evergreen 1) | Yes | Targeted | Recoverability of £59.35m loan agreement invested in North West Evergreen Limited Partnership (Evergreen 2) | Targeted review of the £59.35m of funds which were novated from the Department of Communities and Local Government (DCLG) to Evergreen 1 in December 2016. These funds were previously advanced via a loan agreement from DCLG to Evergreen 2 and are currently invested in capital schemes in the North West. | At the time of drafting this report, both management and ourselves are still seeking assurance over the value and recoverability of the £59.35m held by Evergreen 1 (and included as a long term debtor within the group accounts). We will update the Audit Committee on 20 September with progress on this issue. |

**Audit scope:**

- **Comprehensive** – the component is of such significance to the group as a whole that an audit of the components financial statements is required
- **Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit
- **Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

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## Significant findings arising from the Group audit

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<th>Findings</th>
<th>Comments and conclusions</th>
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</thead>
</table>
| NW Evergreen Holdings Limited Partnership (Evergreen 1) | Following management’s identification of Evergreen 1 and the need to include the entity within the group financial statements, we discussed with management the way forward to obtain sufficient audit assurance.  
At the time of producing this report we are in the process of performing a targeted review of the £59.35m of funds which were novated from the Department of Communities and Local Government (DCLG) to Evergreen 1 in December 2016.  
In summary our proposed approach discussed with management includes the following:
  - Confirmation of the funds novating over to Evergreen 1 from the DCLG in December 2016  
  - Details of assurance from the management of Evergreen 1 to GMCA in terms of the value of the funds having not been materially impaired at the date of our audit work  
  - Receipt of the signed audited accounts of Evergreen 2, which is the entity that has utilised the £59m balance to fund development projects (and mirrors the £59m balance now showing in Evergreen 1). These accounts are to 31 December 2016 and were signed off in July 2017  
  - Review of the updated management accounts of both Evergreen 1 and Evergreen 2 to consider any significant variances compared to the values quoted in the novation agreement (for Evergreen 1) and the audited accounts (for Evergreen 2)  
  - Receipt of assurance from the Real Estate Advisor to Evergreen confirming there are no material impairments to the value of the £59m balance since the audited accounts of July 2017, including the view that the £59m remains a materially accurate balance to include in the GMCA group accounts as at 31 March 2017  
  - Management’s overall consideration of the above assurance and conclusion in relation to the value of the £59m of funds included in the group accounts  
  - The inclusion of a specific representation within the Letter of Representation in respect of the recoverability and valuation of the £59.35m of assets held by Evergreen 1. | At the time of drafting this report, management has provided the majority of the information listed in the column to the left and is in the process of finalising the other information.  
Subject to receipt of this information and a satisfactory review by ourselves of the documentation provided and management’s assessment, we should be in a position to conclude that the group accounts are not materially misstated.  
We will verbally update the Audit Committee on this issue on 20 September 2017.  
We have raised a recommendation in the Action Plan at Appendix A in relation to the review of Group accounts boundary and the issues highlighted by the initial omission of Evergreen [Rec 2] |
### Accounting policies, estimates and judgements and other issues

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within GMCA’s financial statements and other issues that have arisen as part of our year-end audit.

<table>
<thead>
<tr>
<th>Accounting area</th>
<th>Summary of work performed</th>
<th>Comments and conclusion</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| Revenue recognition     | • Government grants and contributions are recognised when there is a reasonable assurance that GMCA will comply with the conditions attached to the payment and the monies will be received. Amounts recognised as due to GMCA are not credited to the Comprehensive Income and Expenditure Statement until conditions have been met.  
• Revenue from the provision of services is recognised when GMCA can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to GMCA.  | • GMCA’s revenue recognition policies are appropriate to its circumstances  
• Disclosure in GMCA’s financial statements is consistent with the requirements of the Code                                                                                                                       | Green      |
| Judgements and estimates| • Key estimates and judgements in the GMCA and group financial statements include:  
  − Useful life of property, plant and equipment  
  − Revaluations  
  − The extent of impairment of loans made by GMCA  
  − Accruals  
  − Valuation of pension fund net liability.  | • GMCA has appropriately disclosed its accounting policies relating to property, plant and equipment, and disclosures in relation to pensions is provided within the notes to the group accounts  
• GMCA has appropriately relied on the work of experts in forming key estimates and judgements.                                                                                                           | Green      |
| Other accounting policies| GMCA has adopted accounting policies in accordance with the Local Government Code of Accounting Practice.                                                                                                          | We have reviewed GMCA’s policies against the requirements of the CIPFA Code of Practice. GMCA’s accounting policies are appropriate and consistent with previous years.                                                 | Green      |

**Assessment**  
- Green: Marginal accounting policy which could potentially attract attention from regulators  
- Orange: Accounting policy appropriate but scope for improved disclosure  
- Black: Accounting policy appropriate and disclosures sufficient

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## Accounting policies, estimates and judgements and other issues continued

<table>
<thead>
<tr>
<th>Accounting area</th>
<th>Summary of work performed</th>
<th>Comments and conclusion</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Going concern</strong></td>
<td>The Treasurer has a reasonable expectation that the services provided by GMCA will continue for the foreseeable future. Members concur with this view. For this reason, GMCA continues to adopt the going concern basis in preparing the financial statements.</td>
<td>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK&amp;I) 570). We have reviewed GMCA’s assessment and are satisfied with management’s assessment that the going concern basis is appropriate for the 2016-17 financial statements.</td>
<td>Green</td>
</tr>
<tr>
<td><strong>Assurances from management and those charged with governance</strong></td>
<td>As part of our planning work to consider GMCA’s governance arrangements, in March 2017 we raised a number of questions to both management and those charged with governance. In common with previous years, the questions deal with a variety of issues such as internal control, risk management, fraud and litigation, and the potential impact of these areas on GMCA’s annual accounts.</td>
<td>We are aware that responses from management and those charged with governance are being collated. We expect the responses to be included on the agenda for Audit Committee on 20 September. We will consider the adequacy of the responses once received.</td>
<td>To be concluded at the Audit Committee</td>
</tr>
<tr>
<td><strong>Subsequent events review (Post Balance Sheet Events)</strong></td>
<td>Given the change in GMCA’s make up and responsibilities after 31 March 2017, in our Audit Plan we highlighted the requirement for some form of non-adjusting post balance sheet disclosure note to be included within the GMCA’s 2016-17 accounts.</td>
<td>GMCA included a non-adjusting post balance sheet disclosure note in the draft accounts. We discussed the note with the finance team and suggested some minor narrative changes to enhance the clarity of the note. The note has been updated to take into account our comments and is to be reflected in the revised accounts (see notes 5 and 60).</td>
<td>Green</td>
</tr>
<tr>
<td><strong>Annual Governance Statement (AGS) and Narrative Report</strong></td>
<td>We reviewed both the AGS and Narrative Report to ensure they were consistent with our knowledge of GMCA and complied with required disclosures in the CIPFA Code. We discussed with GMCA’s Governance and Scrutiny officers the content of the AGS and highlighted some suggested presentational amendments where we thought the draft AGS could be further enhanced.</td>
<td>We are aware that GMCA is updating both the AGS and Narrative Report for the proposals highlighted in our review. We anticipate the updated versions of both documents will be discussed and approved at the Audit Committee on 20 September 2017.</td>
<td>Green</td>
</tr>
</tbody>
</table>
## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| 1. Matters in relation to fraud | • We have previously discussed the risk of fraud with the Audit Committee. Pending receipt of the assurances from management and those charged with governance (referred to on page 15) we have not been made aware of any material instances of fraud.  
• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 2. Matters in relation to related parties | • From the work we carried out, and following the inclusion of Evergreen 1 within the group accounts, we have not identified any related party transactions which have not been disclosed. |
| 3. Matters in relation to laws and regulations | • You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| 4. Written representations | • A standard letter of representation has been requested from GMCA, including specific representations in respect of the Group. The letter of representation is due to be included on the agenda for the Audit Committee on 20 September 2017.  
• Specific representations have been requested from management in respect of the group accounts component ‘Evergreen 1’ and the recoverability and valuation of the £59.35m of assets it holds. |
| 5. Confirmation requests from third parties | • We requested from management permission to send confirmation requests to GMCA’s bankers and a number of the GMCA’s loan and investment counterparties. This permission was granted and the requests were sent. All required responses have been received, all with positive confirmations. |
| 6. Disclosures | • We report on pages 19 to 25 the disclosure changes agreed with officers during the course of our audit. |
### Other communication requirements continued

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| **7. Matters on which we report by exception** | - We are required to report on a number of matters by exception in a number of areas:  
  We have not identified any issues we would be required to report by exception in the following areas  
- If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit  
- The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of GMCA and the Group acquired in the course of performing our audit, or otherwise misleading. |
| **8. Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.  
As GMCA exceeds the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with the GMCA's audited financial statements.  
At the time of drafting this report, we are completing our WGA review, subject to the amended required to the group accounts being reflected in the WGA consolidation pack. We anticipate completing the WGA review in time for the national deadline of 29 September 2017. |
Internal controls

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- We have raised recommendations in respect of enhancing the controls in place to closedown the GMCA accounts and review the Group’s accounting boundary. These are included in the Action Plan at Appendix A.
- There are no other control points we wish to report to the Audit Committee.
## Adjusted misstatements – single entity GMCA accounts

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit process which impact on the primary statements and have been processed by management.

All adjusted misstatements identified to date are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

<table>
<thead>
<tr>
<th>Detail</th>
<th>Comprehensive Income and Expenditure Statement (CIES) £’000</th>
<th>Balance Sheet £’000</th>
<th>Impact on total net expenditure £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 <strong>Highways and Transport Services (HTS)</strong> – the following adjustments have been agreed:</td>
<td></td>
<td></td>
<td>Overall effect on HTS is an increase in income of £153k and a decrease in expenditure of £671k. Resulting in a reduction in net HTS expenditure of £824k.</td>
</tr>
<tr>
<td>• Local sustainable transport fund (LSTF) 825k. No double entry for this adjustment, the ledger is correct, however, the disclosure in the accounts was incorrect. There is no adjustment required on reserves. The adjustment increases reported income by £825k</td>
<td>Cr to HTS income 825</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• LSTF - £671k revenue contribution to capital outlay, both debit and credit within expenditure – but should have been shown as a reduction to income.</td>
<td>Dr HTS income 671 Cr HTS expenditure 671</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 <strong>Economic Development and Regeneration (EDR)</strong> – the following adjustments have been agreed:</td>
<td></td>
<td></td>
<td>Overall effect on EDR is a decrease to income of £704k and an increase in expenditure of £61k. Resulting in an increase in net EDR expenditure of £765k.</td>
</tr>
<tr>
<td>• The reported EDR income figure initially understated by £570k due to the omission of three EDR related grants (no double entry as ledger was correct)</td>
<td>Cr EDR income 570</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The reported Apprenticeship Grant for Employers (AGE) grant of £1,274k, included in EDR income in error. (no double entry as ledger was correct)</td>
<td>Dr EDR income 1,274</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• EDR expenditure - 61k of pension figures not initially included in reported figures (although no double entry as the ledger was correct)</td>
<td>Dr EDR expenditure 61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 <strong>Borrowing/Cash &amp; Cash Equivalents - TfGM Interbank Balance:</strong> Identified from the inter-authority agreement of balances that TfGM interbank balance of £1,402k had not been included in borrowing. Compensating adjustment required to cash and cash equivalents. Relates to deposits with the Debt Management Office at year-end made by TfGM on behalf of GMCA.</td>
<td>Dr cash and cash equivalents 1,402 Cr short term borrowings 1,402</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>
### Adjusted misstatements – single entity GMCA accounts continued

<table>
<thead>
<tr>
<th>Detail</th>
<th>Comprehensive Income and Expenditure Statement (CIES) £'000</th>
<th>Balance Sheet £'000</th>
<th>Impact on total net expenditure £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 <strong>Borrowing &amp; creditors – Manchester City Council loan:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>We identified that a £10,040k loan from Manchester City Council, repayable on 7 April 2017, had been initially incorrectly classified as a short term creditor on the GMCA balance sheet.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Along with adjustment 3 on the previous page, this resulted in an increase in short term borrowings of £11,442k (10,040k + £1,402k).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dr Short term creditors 10,040</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cr sort term borrowings 10,040</td>
<td></td>
</tr>
<tr>
<td><strong>Overall impact</strong></td>
<td><strong>59</strong></td>
<td><strong>Nil</strong></td>
<td><strong>Nil – balancing adjustment of £59k to be processed</strong></td>
</tr>
</tbody>
</table>
**Audit findings**

**Adjusted misstatements – Group**

At the time of producing this report, our audit of the group accounts is ongoing, given the need to revise the group accounts for the adjustment noted below.

<table>
<thead>
<tr>
<th>Detail</th>
<th>Comprehensive Income and Expenditure Statement £'000</th>
<th>Balance Sheet £'000</th>
<th>Impact on total net expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td><strong>Group accounts:</strong> To consolidate the additionally identified GMCA subsidiary, NW Evergreen Holdings Limited Partnership (Evergreen 1), into the group accounts.</td>
<td>64,151 (Included as a gain to the CIES)</td>
<td>64,151 (increase in donated assets and reserves)</td>
</tr>
<tr>
<td><strong>Overall impact</strong></td>
<td><strong>£64,151</strong></td>
<td><strong>£64,151</strong></td>
<td></td>
</tr>
</tbody>
</table>
# Audit findings

## Misclassifications and disclosure changes – single entity GMCA accounts

The table below provides details of misclassification and disclosure changes identified during the audit to date which have been made in the final set of financial statements.

<table>
<thead>
<tr>
<th>Adjustment type</th>
<th>Value £'000</th>
<th>Account balance</th>
<th>Impact on the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Misclassification</td>
<td>10,040</td>
<td>Short term creditors (note 25)</td>
<td>As a result of the borrowing and creditor adjustment detailed on page 20, there is a need to change the short term creditor disclosure by £10,040k to £94,038k. This is reflected in the ‘other local authorities’ line within note 25 which should be reduced by £10,040k to £38,209k.</td>
</tr>
</tbody>
</table>
| 2 Misclassification | 1,402 & 11,442 | Financial instruments (note 27) – categories of financial instruments table | The following amendments are required resulting from the adjustments to borrowings set out previously:  
• Investments – ‘loans and receivable current’ line to be increased by £1,402k to £119,215k  
• Borrowings – ‘financial liabilities current’ line to be increased by £11,442k. |
| 3 Disclosure | 4,131 | Financial instruments (note 27) – income and expense table | The table initially showed ‘impairment of debtors’ of £6,073k which did not match up to the bad debt line in note 16 (running costs) which showed £4,131k. GMCA has agreed to amend note 27 to £4,131k, in line with note 16. |
| 4 Disclosure & misclassification | Various | Financial instruments (note 27) – fair value table and disclosures | The following amendments were required resulting from the adjustments to cash equivalents and borrowings set out previously. These have been agreed with management:  
• both the carrying value and fair values of loans and receivable in the table are to be increased by £1,402k to £175,871k.  
• both the carrying value and fair values of non-PWLB debt in the table need to be increased by £11,442k to £567,991k and £899,018k, respectively.  
• the narrative disclosure for the fair value of non-PWLB loans using premature repayment rates needs to be amended to £899,018k.  
• the narrative disclosure for the fair value of non-PWLB loans using current market rates needs to be increased by £11,442k to £780,018k. |
## Misclassifications and disclosure changes – single entity GMCA accounts

<table>
<thead>
<tr>
<th>Adjustment type</th>
<th>Value £'000</th>
<th>Account balance</th>
<th>Impact on the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Misclassification</td>
<td>11,442</td>
<td>Financial instruments (note 27) – borrowings table</td>
<td>The following amendments were required resulting from the adjustments to borrowings set out previously. These have been agreed with management:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• ‘Total outstanding borrowings’ to be increased by £11,442k to £962,273k</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• ‘Analysis of maturity due within 1 year’ - to be increased by £11,442k to £24,380k.</td>
</tr>
<tr>
<td>6 Disclosure &amp; misclassification</td>
<td>Various</td>
<td>Nature and extent of risks arising from financial instruments (note 28)</td>
<td>The following presentational disclosure changes were discussed and agreed with management:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• ‘Investment limits for other GM wide authorities’ of to be amended from £60m to ‘unlimited’ to agree with the approved Treasury Management Strategy 2016-17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Excerpts of the note relating to interest rate risk to be inserted into the accounts, as this was initially omitted from draft accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• the maturity analysis table for financial liabilities to be amended for adjustments to borrowings set out previously. The ‘less than one year figure’ to be increased by £11,442k to £160,439k</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• the maturity analysis for financial assets to be increased by £1,402k for adjustment to cash equivalent set out previously. In addition, the line needs to be reduced by £31,389k for a compilation error. This will result in total being amended from £205,877k to £175,890k.</td>
</tr>
<tr>
<td>7 Disclosure</td>
<td>n/a</td>
<td>Post balance sheet events (note 5)</td>
<td>The single entity PBSE was amended to cross refer to the group PBSE disclosure (note 60) and enhanced narrative was discussed in order to include the financial effect of the transfer of the OPCC and GMFRS into GMCA from 2017-18.</td>
</tr>
<tr>
<td>8 Disclosure</td>
<td>n/a</td>
<td>Various disclosure notes</td>
<td>In our initial review of the draft accounts, we noted some rounding differences when comparing the primary statements to their supporting disclosure notes. These were brought to the attention of the finance team. These will be resolved in the revised accounts to be signed by 29 September.</td>
</tr>
</tbody>
</table>
### Misclassifications and disclosure changes – single entity GMCA accounts

<table>
<thead>
<tr>
<th>Adjustment type</th>
<th>Value £'000</th>
<th>Account balance</th>
<th>Impact on the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Disclosure</td>
<td>n/a</td>
<td>Expenditure and funding analysis (EFA) (note 7)</td>
<td>A revised single entity EFA to be included in note 7. The incorrect version of the EFA was originally inserted into the draft accounts. We also discussed and agreed some disclosure and narrative changes to the revised note 7.</td>
</tr>
<tr>
<td>10 Disclosure</td>
<td>n/a</td>
<td>Staff costs (note 34)</td>
<td>The last salary banding in the £50k table was amended to state £130,000 to £134,999 (the original disclosure showed £130,000 to £139,999).</td>
</tr>
</tbody>
</table>
| 11 Disclosure   | n/a         | Related party transactions (note 30) | The following amendments were discussed and agreed to note 30:  
  - In the ‘Greater Manchester Authorities’ table, the ‘annual contribution to the ED&R function’ originally totalled £43,913k. However, supporting working papers stated £9,883k. This has been updated in the revised accounts  
  - The ‘Manchester City Council’ disclosure table did not originally disclose the £10,040k loan made by MCC to GMCA at the year-end. This has been updated in the revised accounts. |
| 12 Disclosure & misclassification | various | Cash flow statement and supporting notes (notes 31-33) | The following amendments were required resulting from the adjustments to borrowings set out previously. These have been agreed with management:  
  - Inclusion of TfGM Interbank balance of £1,402k as loan and matching DMO deposit as cash equivalent  
  - Reclassification of Manchester City Council loan of £10,040k from creditors to borrowings  
  - Amended provision of services arising from investments impairment of £235k now posted to cost of services. |
## Misclassifications and disclosure changes – Group accounts

The table below provides details of misclassification and disclosure changes identified during the group audit to date.

<table>
<thead>
<tr>
<th>Adjustment type</th>
<th>Value £'000</th>
<th>Account balance</th>
<th>Impact on the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Disclosure</td>
<td>398 &amp; 76</td>
<td>Employee benefits (note 55)</td>
<td>In the group pension disclosure (note 55) the balances brought forward for funded liabilities to be amended from £358,177k to £358,575k in order to agree with the prior year’s audited accounts and carry forward figure. The same issue applies to the fair value of scheme assets, where the brought forward figure is to be amended from £334,082k to £334,158k to agree with previous year’s closing balance.</td>
</tr>
<tr>
<td>2 Disclosure</td>
<td>n/a</td>
<td>Post balance sheet events (note 60)</td>
<td>The group PBSE disclosure (note 60) was reviewed and enhanced narrative was agreed in order to include the financial effect of the transfer of the OPCC and GMFRS into GMCA from 2017-18.</td>
</tr>
<tr>
<td>3 Disclosure</td>
<td>n/a</td>
<td>Group expenditure and funding analysis (note 36)</td>
<td>A group EFA disclosure is to be inserted into the revised accounts. The draft accounts did not include a group EFA.</td>
</tr>
<tr>
<td>4 Disclosure</td>
<td>n/a</td>
<td>Group Financial Instruments (note 43)</td>
<td>The fair value of non-PWLB debt to be amended from £73,692k (per the draft accounts) to £961,268k in order to disclose the correct fair value of non-PWLB debt as at 31 March 2017.</td>
</tr>
<tr>
<td>5 Disclosure</td>
<td>n/a</td>
<td>Group staff costs (note 57)</td>
<td>Disclosure amendment to remove all £5k salary bandings with nil entries – in order to improve the clarity of the note.</td>
</tr>
<tr>
<td>6 Disclosure</td>
<td>n/a</td>
<td>Group CIES</td>
<td>Note to be added to Group CIES explaining adjustments to Cost of Services comparatives. Also, the comparative 2015-16 column to be headed “restated”.</td>
</tr>
<tr>
<td>7 Disclosure</td>
<td>n/a</td>
<td>Accounting policies</td>
<td>The pensions liability discount rate was initially disclosed as 4.1%. The discount rate for both the single entity and group now show the appropriate rate of 2.5%.</td>
</tr>
<tr>
<td>8 Disclosure</td>
<td>266</td>
<td>Group MIRS and adjustments between accounting basis and funding basis under regulations (note 37)</td>
<td>The adjustments between accounting basis and funding basis under regulations disclosure (note 37) is to be amended from £11,280k to £11,546k in order to reconcile back to the group movement in reserves statement.</td>
</tr>
</tbody>
</table>
Section 3: Value for Money
Value for Money

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- GMCA had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our proposed report, which confirms this can be found at Appendix B.

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (‘the Act’) and the NAO Code of Audit Practice (‘the Code’) to satisfy ourselves that GMCA has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at GMCA. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether GMCA has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO’s Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 4 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment.

A summary of our consideration of the significant risk identified is included in the table overleaf.
**Key findings**

We set out below our key findings against the significant risk we identified through our initial risk assessment and our ongoing review of documents.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Work to address</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrangements and planning for the integration of other Greater Manchester bodies into GMCA and the take on of additional powers and functions</td>
<td>We considered GMCA’s plans to prepare for the significant change in its functions from 2017-18, ensuring appropriate arrangements are in place to take on the additional powers, responsibilities and people from May 2017. We met with the Assistant Director of Business, Innovation and Enterprise Policy in June 2016 and considered the report ‘Transition Programme – Phase One Review’ which was presented to the GMCA Senior Management Team (SMT) in July 2017. We also discussed transition matters with various officers at GMCA, including the Treasurer and internal audit. We continued to remain alert to additional Value for Money risks through ongoing liaison meetings with senior officers, review of GMCA minutes and papers, our audit of the 2016-17 financial statements and our attendance at Audit Committee.</td>
<td>Overall, based on our review of GMCA’s arrangements and discussions with officers we were satisfied with the arrangements in place to deal with the phase one transition programme. On that basis we concluded that the risk was sufficiently mitigated and GMCA has proper arrangements in place. As such, we propose to issue an unqualified, ‘clean’ VFM conclusion in our 2016-17 opinion (see Appendix B).</td>
</tr>
</tbody>
</table>

Whilst GMCA is not subject to significant reorganisation or merger in 2016-17, from May 2017, following the election of Greater Manchester’s first elected Mayor, significant new functions and additional powers transferred to GMCA. These functions became effective in 2017-18. These include the functions of the Office of the Police and Crime Commissioner for Greater Manchester, the functions of the Greater Manchester Fire and Rescue Service and, in 2018-19, the functions of the Greater Manchester Waste Disposal Authority.

Given the level of major change that is commencing from the start of the 2017-18 financial year, we flagged a significant risk for our 2016-17 VFM conclusion in relation to GMCA’s arrangements for planning for the transfer of these new functions and responsibilities.

This links to GMCA’s arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.

Recommendation and future review

During our discussions with officers and review of documentation, there was a consistent view expressed that phase two of the transition programme could be a more comprehensive and challenging process.

This is likely to involve intensive work coordinating terms and conditions of officers who have come from different legacy bodies. In addition to human resource related matters, there are expected to be phase two requirements impacting on IT, finance and facilities.

It will be important for GMCA to appropriately plan, coordinate and resource the various aspects of the phase two transition process and ensure that SMT and those charged with governance are kept informed of the progress on delivering the various aspects of phase two.

We will be monitoring this as part of our 2017-18 audit planning. We have raised a recommendation on this matter. The recommendation and management’s response can be found in the Action Plan at Appendix A. [Rec 3]
Section 4: Fees, non-audit services and independence

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters
Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

**Fees**

<table>
<thead>
<tr>
<th></th>
<th>Proposed fee £</th>
<th>Final fee £</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMCA audit</td>
<td>24,255</td>
<td>24,255</td>
</tr>
<tr>
<td>Total audit fees (excluding VAT)</td>
<td>24,255</td>
<td>24,255</td>
</tr>
</tbody>
</table>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

**Independence and ethics**

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to GMCA. The table below summarises all other services which were identified.

**Fees for other services**

<table>
<thead>
<tr>
<th>Service</th>
<th>Fees £</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit related services:</strong></td>
<td></td>
</tr>
<tr>
<td>• Provision of an Accountant's Report relating to Regional Growth Fund 2 (May 2016)</td>
<td>5,500</td>
</tr>
<tr>
<td><strong>Non-audit services:</strong></td>
<td></td>
</tr>
<tr>
<td>• None</td>
<td>-</td>
</tr>
</tbody>
</table>

In addition to the above GMCA related fees, we are the appointed auditors to Transport for Greater Manchester (TfGM), a subsidiary within the GMCA group accounting boundary.

In 2016-17 our audit fee for TfGM was £43,730 (in line with the scale fee for TfGM set by PSAA), and our non-audit related fees were £30,279 – see overleaf for further details.

Grant Thornton UK LLP is also the external auditor to New Economy (audit fee of £9k) and MIDAS (audit fee of £7k).
Independence and other services

We have considered whether other services might be perceived as a threat to our independence as GMCA and the group’s external auditor and have ensured that appropriate safeguards are put in place. The non-audit services detailed in the table below are consistent with GMCA and the group’s policy on the allotment of non-audit work to your external auditor.

<table>
<thead>
<tr>
<th>Detail of service provided</th>
<th>Service provided to</th>
<th>Fees</th>
<th>Threat?</th>
<th>Safeguards against the risks to audit independence:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit related services:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Grant funding audit        | Greater Manchester Combined Authority | £5,500 | Self-interest, Self-review, Management | The self-interest threat was mitigated as the fee for the work was negligible in comparison to the Firm’s overall turnover. It was a fixed fee with no contingent element.  
• The self-review threat was mitigated as we were not recommending any particular course of action and management decided whether to act on any development areas.  
• The management threat was mitigated on the basis that the review did not involve us in any management function. We did not have responsibility for operational decision making.  
These factors mitigated the perceived threats to an acceptable level. |
| **Non-audit services:**    |                     |       |                               |                                                                                                                 |
| Audit Committee and Risk Management effectiveness review | Transport for Greater Manchester (a subsidiary entity within the GMCA group accounting boundary) | £12,365 | Self-interest, Self-review, Management, Familiarity | The self-interest threat was mitigated as the fee for the work was negligible in comparison to the Firm’s overall turnover. It was a fixed fee with no contingent element.  
• The self-review threat was mitigated as we were not recommending any particular course of action and management decided whether to act on any development areas.  
• The management threat was mitigated on the basis that the review did not involve us in any management function. We did not have responsibility for operational decision making.  
• The familiarity threat was mitigated as the review was performed by members of the Firm’s local government advisory team and not by the audit engagement team.  
These factors mitigated the perceived threats to an acceptable level. |

[continued over the page]
### Independence and other services - continued

<table>
<thead>
<tr>
<th>Detail of service provided</th>
<th>Service provided to</th>
<th>Fees</th>
<th>Threat?</th>
<th>Safeguards against the risks to audit independence:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-audit services (continued):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost assurance review</td>
<td>Transport for Greater Manchester (a subsidiary entity within the GMCA group accounting boundary)</td>
<td>£17,914</td>
<td>• Self-interest</td>
<td>• The self-interest threat was mitigated as the fee for the work was negligible in comparison to the Firm’s overall turnover. It was a fee with a contingent element, however, there was an overall fixed cap on any fees of £30k.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Self-review</td>
<td>• The self-review threat was mitigated as we were not recommending any particular course of action and management decided whether to act on any development areas. Any savings identified in the review of historical energy and telecoms bills were significantly below our materiality.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Familiarity</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• The management threat was mitigated on the basis that the review did not involve us in any management function. We did not have responsibility for operational decision making.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• The familiarity threat was mitigated as the review was performed by members of the Firm’s government infrastructure advisory team and not by the audit engagement team.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>These factors mitigated the perceived threats to an acceptable level.</td>
</tr>
</tbody>
</table>

**TOTAL**                   | **£35,779**                                              |       |                             |                                                                                                                                                                                                                                                      |
# Section 5: Communication of audit matters

<table>
<thead>
<tr>
<th>01.</th>
<th>Executive summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>02.</td>
<td>Audit findings</td>
</tr>
<tr>
<td>03.</td>
<td>Value for Money</td>
</tr>
<tr>
<td>04.</td>
<td>Fees, non audit services and independence</td>
</tr>
<tr>
<td>05.</td>
<td>Communication of audit matters</td>
</tr>
</tbody>
</table>
Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

<table>
<thead>
<tr>
<th>Our communication plan</th>
<th>Audit Plan</th>
<th>Audit Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respective responsibilities of auditor and management/those charged with governance</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Confirmation of independence and objectivity</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Details of safeguards applied to threats to independence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material weaknesses in internal control identified during the audit</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Non compliance with laws and regulations</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Expected modifications to auditor's report, or emphasis of matter</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Unadjusted misstatements and material disclosure omissions</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Significant matters arising in connection with related parties</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Significant matters in relation to going concern</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Matters in relation to the group audit including:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.
Appendices

A. Action Plan
B. Audit Opinion (proposed)
### A. Action Plan

<table>
<thead>
<tr>
<th>Rec. no.</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Management response</th>
<th>Implementation date and responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Project plan for 2017-18 accounts closedown and audit process:</td>
<td>High</td>
<td>Agreed. Additional senior resource had been planned and has now been brought into the finance team to lead and support a project team to ensure the future challenges are mitigated. Both Greater Manchester Police and Transport for Greater Manchester will be fully engaged throughout to ensure that the group accounts can be completed to the new timeline.</td>
<td>Richard Paver, GMCA Treasurer 31 March 2018</td>
</tr>
<tr>
<td></td>
<td>Given the challenges experienced in relation to the accounts closedown and audit process, and the issues anticipated in relation to 2017-18, we recommend GMCA set out a detailed project plan to mitigate the challenges posed by 2017-18 accounts and audit process. The plan should be appropriately resourced, identifying the officers responsible for taking forward the various aspects and should be subject to oversight by the Audit Committee throughout 2017-18. We will be working with the finance team throughout 2017-18 to ensure the above issues are mitigated and resolved as far as possible prior to closedown of the accounts.</td>
<td>medium</td>
<td>A project plan has been drafted following a GMCA SMT away day in July. The GMCA SMT will oversee restructuring activity, reporting to the GMCA resources committee.</td>
<td>Andrew Lightfoot, Deputy Chief Executive 31 March 2018</td>
</tr>
<tr>
<td>2.</td>
<td>Review of Group accounts boundary:</td>
<td>High</td>
<td>Agreed. We will introduce a more robust group materiality analysis which will include a full review of group entities.</td>
<td>Richard Paver, GMCA Treasurer 31 March 2018</td>
</tr>
<tr>
<td></td>
<td>Given the initial omission of Evergreen from the 2016-17 group accounts and the increasing remit of GMCA, we recommend the Authority performs a full review of all associated and related entities of GMCA against the group accounts requirements. This should ensure the possibility of any future omissions from the GMCA group accounting boundary is reduced.</td>
<td>medium</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We anticipate we will provide GMCA and the Group with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GREATER MANCHESTER COMBINED AUTHORITY

We have audited the financial statements of Greater Manchester Combined Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise [the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report by the Treasurer and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report by the Treasurer and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.
Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[to be signed]

Mark Heap
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

29 September 2017