

The Annual Audit Letter for Greater Manchester Combined Authority

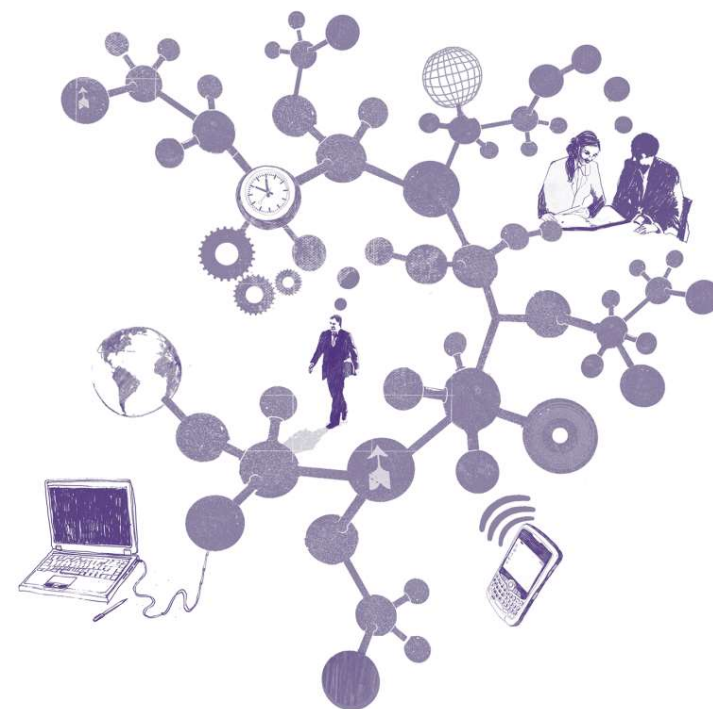
Year ended 31 March 2017

27 October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Greater Manchester Combined Authority (GMCA) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to GMCA and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the GMCA Audit Committee (as those charged with governance) in our Audit Findings ISA260 Report on 20 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on GMCA's financial statements (section two)
- assess GMCA's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of GMCA's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on GMCA's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that GMCA put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 29 September 2017.

Whole of Government Accounts

We completed work on the GMCA's consolidation return following guidance issued by the NAO and issued an unqualified report on 27 October 2017.

Certificate

We certified that we had completed the audit of the accounts of GMCA in accordance with the requirements of the Code on 27 October 2017.

Working with GMCA

We welcome the regular liaison meetings with senior management from across GMCA that take place throughout the year, in order to discuss emerging accounting and governance issues.

Given the issues experienced with the year-end audit process in 2016-17 and the challenges of an expanded GMCA in 2017-18 coupled with a earlier accounts and audit timetable, we will be working closely with officers throughout the coming year to ensure these are mitigated and an enhanced year-end process is achieved in 2017-18.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by GMCA staff.

Grant Thornton UK LLP
27 October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of GMCA's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of GMCA's accounts to be £6,563,000 and £7,333,000 for the group (being 1.75% of gross revenue expenditure from 2015-16). We used this benchmark as, in our view, users of GMCA's accounts are most interested in how it has spent the income funded from levy and grants during the year.

We also set a lower level of specific materiality of £20,000 for senior officer remuneration disclosures and related party transactions.

We set a lower threshold of £328,000 (£367,000 for the group) above which we reported adjustments to the Audit Committee in our Audit Findings (ISA260) Report.

The scope of our audit

Our audit involved obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they were free from material misstatement, whether caused by fraud or error. This included assessing whether:

- the TfGM accounting policies were appropriate, had been consistently applied and adequately disclosed
- significant accounting estimates made by the Finance and Corporate Services Director were reasonable
- the overall presentation of the financial statements gave a true and fair view.

We also read the narrative report and annual governance statement to check they were consistent with our understanding of GMCA and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of GMCA's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

Below and overleaf are the risks which had the greatest impact on our overall strategy and where we focused more of our audit work.

Risks identified in our Audit Plan & Audit Findings Report	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at GMCA, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including GMCA, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>During the course of our audit we reviewed:</p> <ul style="list-style-type: none"> • entity level controls • journal entry processes and tested a sample of unusual journal entries back to supporting documentation • accounting estimates, judgements and decisions made by management • unusual significant transactions. 	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and journal entries did not identify any significant issues.</p>
<p>Group audit</p> <p>As Group auditors we are required to obtain sufficient appropriate audit evidence regarding the financial information of group entities and the consolidation process. We identified Transport for Greater Manchester as financially significant to the GMCA Group.</p> <p>During the audit fieldwork, management identified the omission of an additional GMCA subsidiary, NW Evergreen Holdings Limited Partnership (Evergreen), from the group accounts.</p> <p>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.</p>	<p>During the course of our audit we:</p> <ul style="list-style-type: none"> • took account of Grant Thornton UK LLP's full scope UK statutory audit of Transport for Greater Manchester's (TfGM) 2016-17 financial statements • reviewed the consolidation process by which the GMCA's Group accounts were prepared • performed a targeted review of the funds which were novated from the Department of Communities and Local Government (DCLG) to Evergreen in December 2016. 	<p>We identified some misstatements relating to the consolidation of the financial statements, and these were corrected by officers prior to the finalisation of the Group accounts.</p> <p>Following the inclusion of Evergreen, the Group accounts showed 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.</p>

Audit of the accounts

Risks identified in our Audit Plan & Audit Findings Report	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of local authority financial statements</p> <p>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.</p> <p>The changes affected the presentation of income and expenditure in the financial statements and associated disclosure notes.</p> <p>A prior period adjustment (PPA) to restate the 2015-16 comparative figures was also required.</p>	<p>We performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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 were in line with GMCA’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. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts

Audit opinion

Issues arising from the audit of the accounts

The finance department 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 we identified would all suggest that the finance department experienced some difficulties during the 2016-17 accounts closedown and audit period. The loss of a key member of the senior finance team for the bulk of our audit fieldwork period also impacted on the progress and completion of the audit. Similar issues were also experienced in the 2015-16 audit process.

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 2017-18 GMCA accounts with the requirement to include from 8 May 2017 the accounting transactions and balances of the former Office of the Police and Crime Commissioner (OPCC) and the Greater Manchester Fire and Rescue Authority.

We raised a recommendation in relation to GMCA setting out a detailed project plan to mitigate the challenges posed by the 2017-18 accounts and audit process. The plan should be resourced appropriately, identifying the officers responsible for taking forward the various aspects and should be subject to oversight by the Audit Committee throughout the remainder of 2017-18. We note that GMCA has already responded by recruiting additional resource into the finance department to take action and plan for the 2017-18 accounts closedown and audit process.

We reported the key issues from our audit of the accounts of GMCA to the Audit Committee on 20 September 2017. The adjustment relating to the inclusion of Evergreen was detailed on page 5. Whilst there were no further significant audit adjustments impacting on the primary statements of the group or single entity GMCA accounts, we identified a large number of presentational adjustments to improve the presentation of the financial statements.

We issued an unqualified opinion on GMCA's financial statements on 29 September 2017.

Annual Governance Statement and Narrative Report

We are required to review GMCA's Annual Governance Statement and Narrative Report. GMCA published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by GMCA and with our knowledge of GMCA.

Whole of Government Accounts (WGA)

We carried out work on the GMCA's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 27 October 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about GMCA's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify any key risks where we might need to concentrate our work. We communicated this to you in our Audit Plan dated 4 April 2017.

We continued our review of relevant documents up to the date of giving our report, and did not identify any further significant risks where we needed 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.

We reported this outcome as part of our Audit Findings (ISA260) Report agreed with GMCA in September 2017.

Overall VfM conclusion

We are satisfied that in all significant respects GMCA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money conclusion

Significant risk	Work to address	Findings and conclusions
<p>Arrangements and planning for the integration of other Greater Manchester bodies into GMCA and the take on of additional powers and functions</p> <p>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.</p> <p>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 Authority and, in 2018-19, the functions of the Greater Manchester Waste Disposal Authority.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We met with the Assistant Director of Business, Innovation and Enterprise Policy in June 2017 and considered the report 'Transition Programme – Phase One Review' which was presented to the GMCA Senior Management Team (SMT) in July 2017.</p> <p>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.</p>	<p>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.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and GMCA has proper arrangements in place. This resulted in an unqualified VFM conclusion in our 2016-17 opinion.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We have raised a recommendation on this matter. We will be monitoring this as part of our 2017-18 audit planning.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015-16 fees £
Statutory audit of GMCA	24,255	24,255	24,255
Total fees (excluding VAT)	24,255	24,255	24,255

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

Reports issued

Report	Date issued
Audit Fee Letter	April 2016
Audit Plan	April 2017
Audit Findings (ISA260) Report	September 2017
Annual Audit Letter	October 2017

Fees for other services - GMCA single entity

Service	Fees £
Audit related services:	
• Provision of an Accountant's Report relating to Regional Growth Fund 2 (May 2016)	5,500
Non-audit services:	
• None	-
TOTAL	5,500

Fees for other services - GMCA Group

Service	Fees £
Statutory audit:	
• Transport for Greater Manchester	43,730
• New Economy	9,000
• MIDAS	7,000
Audit related services:	
• None	-
Non-audit services:	
• TfGM - Audit Committee and Risk Management effectiveness review	12,365
• TfGM - Cost assurance review	17,914

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to GMCA. The table above summarises all other services which were identified.
- We have considered whether the other services might be perceived as a threat to our independence as GMCA's auditor and have ensured that appropriate safeguards were put in place. We set these out in our Audit Findings Report in September 2017.
- 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.
- Grant Thornton UK LLP is also the external auditor to New Economy (audit fee of £9k) and MIDAS (audit fee of £7k).
- The above non-audit services are consistent with GMCA's and TfGM's policy on the allocation of non-audit work to your auditor and have been previously approved by the Audit Committee.



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