

Annual Audit Letter

Chief Constable of Greater Manchester Police(GMP)

Year ending 31 March 2019





CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward Look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Chief Constable and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

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

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

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 July 2019 included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Chief Constable's financial position as at 31 March 2019 and of the expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 30 July 2019 included our opinion that:</p> <ul style="list-style-type: none">• The other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Chief Constable has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Chief Constable.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

The scope of our audit and the results of our work

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

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

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

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

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

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

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

Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Operating Expenditure	£11.882m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.356m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk by performing audit work in the following areas:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>We have not identified any significant matters arising from our testing of the risk of management override of controls.</p>
<p>Defined benefit liability valuation</p> <p>The financial statements contain material pension entries in respect of retirement benefits for both the Police Officer Pension Scheme and the Local Government Pension Scheme.</p> <p>The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • identified and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated; • evaluated the competence, expertise and objectivity of the actuaries who carried out your pension fund valuations.; • Considered the reasonableness of the actuaries outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports from your actuaries. 	<p>In late June 2019 two Legal rulings in respect of guaranteed minimum pension equalisation and the McCloud judgment relating to transitional provisions created additional defined benefit liabilities. These were not taken into account in the actuarial estimates of the defined benefit liability.</p> <p>To determine the significance of the changes on the reported pension liabilities, management requested updated actuarial assessments. This created a material adjustment to the defined benefit liability that was reported in the financial statements.</p>

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

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

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

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

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our value for money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place being inadequate. In our Audit Completion Report, we reported that we had identified two significant audit risks. The work we carried out in relation to significant risks is outlined below and overleaf and our auditor's report, issued on 30 July 2019, stated that, in all significant respects, the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31st March 2019.

Risk

Financial Sustainability

The financial position that Greater Manchester Police faces continues to be challenging in 2018/19 and beyond. The Police grant for 2018/19 remained at the same level as that received in 2017/18 with no additional funding to support increasing costs and demands on police services. Consequently, the revenue budget set out a savings requirement for 2018/19 of £10.9m with a further reduction of £66m by 31 March 2023.

The position has been exacerbated by the impact of the HM Treasury Valuation Directions on unfunded public sector pension schemes that has added £14.1m to employer contributions for 2019/20. Additional funding has been made available in 2019/20 to cover this additional cost however, only £6.6m is non recurrent.

Findings

The Chief Constable has a track record of achieving required savings and between 2011/12 and 2017/18 some £204m of savings have been delivered. The 2018/19 revenue budget reflected the challenge of no additional funding despite increasing costs and additional demands. While Police and Crime Commissioners were able to increase precept, the Government retains control by setting precept limitation rules.

The budget included a cost reduction requirement of £10.9m and plans were made for delivery. Our review of financial monitoring confirmed that throughout the year there was thorough and regular review with monthly reporting to the Chief Officer Group. The reports provide a detailed update covering both capital and revenue that set out both the current position and a projected position at the year end. GMP again delivered a balanced budget for 2018/19 with staff pay related overspends offset by underspends achieved in other areas.

(Continued overleaf)

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

3. VALUE FOR MONEY CONCLUSION

Findings

Longer term-Medium Term Financial Planning

The Chief Constable continues to take a longer term view of financial challenges and continues to maintain a Strategic Financial Outlook (SFO) that is updated and rolled forward regularly and currently covers the period 2019/20–2021/23. However, the settlement for the police grant is annual which makes medium term planning more challenging. The SFO sets out the governance arrangements that are in place to help deliver financial sustainability and is based on best and most up to date information. This arrangement is limited because some information needs to be confirmed in the next Comprehensive Spending Review (CSR), so funding projections beyond 2019/20 assume a continuation of flat cash settlements but with a return to 2% p.a. precept increases. This results in a further savings requirement of £66m for the period 2019/20 to 2022/23. The SFO articulates that future decisions to implement a new Funding Formula and the unknown economic impact of Brexit only add to the uncertainty regarding future funding levels.

Further savings of £66m are required over the next four years including £7m in 2019/20, £25.8m in 2020/21 and £18.3m in 2021/22 and £14.5m in 2022/23. To date total savings have been identified of £40.8m of the total requirement of £66m with the majority of savings understandably predicated on a review and profile of expected retirements and projected staff turnover.

Reserves and balances

The reserves position is complicated by responsibility for maintenance and application of reserves resting with GMCA rather than the Chief Constable. The Mayor both holds reserves and determines how they may be applied. This clearly limits the ability of the Chief Constable to undertake longer term financial planning and the SFO savings identified does not require the use of reserves to achieve the necessary financial position. As at 31 March 2019 GMCA held £76.1m within the "Mayoral Police Fund Reserves" compared to £75.6m as at 31 March 2018.

The s151 officer recognises the risk that uncertainty over future precept levels and the continued commitment to their increase is in the hands of the Mayor rather than being a GMP decision and GMP needs to continue to work with the Mayor to establish a confirmed approach.

Conclusion

Our work on financial sustainability has concluded that GMP has appropriate financial arrangements in place while continuing to operate in a very challenging financial environment. On that basis we concluded that the risk was sufficiently mitigated and the Chief Constable has proper arrangements in place.

3. VALUE FOR MONEY CONCLUSION

Risk

IS Transformation

The Chief Constable and the Chief Officer's Group (COG) have developed a Target Operating Model (TOM) for the future delivery of policing services. The IS transformation programme (ISTP) is a key element of the change agenda that GMP is pursuing under the TOM that is designed to fundamentally change the operational policing model. iOPS forms the main part of the ISTP and its implementation date has been subject to a number of delays with an anticipated "go live" date yet to be confirmed.

Findings

The Chief Constable has been working to deliver a number of transformational projects that are designed to meet the evolving challenges that the Police service faces. The iOPs project is central to this aim and its implementation will replace all operational legacy systems with one integrated system, allowing for cradle to grave operational policing. Since inception, the iOPS project has been subject to a number of changes to the original scope to overcome operational challenges and to enhance the specific functionality of the programme and this has contributed to significant delays to the planned "go live" date. The view of the Chief Constable remains that under the terms of the contract certain additional costs incurred as consequence of the project delays will be recovered.

Arrangements to oversee delivery and progress

To oversee the delivery of IST programme the Chief Constable established a number of arrangements that included a number of Project Boards and a Programme Board which maintain governance and oversight. The iOPs Project Board meets weekly and discusses the general maintenance of the project and escalates additional cost approvals or project changes upwards to the Programme Board for consideration. The Programme Board has broader oversight of the overall programme, and has the authority to approve changes to finance or structure. This Board is chaired by an ACC and meets monthly, or sooner if there are exceptional matters to be dealt with promptly.

We understand that this governance structure has been in place since the outset of the ISTP and will continue to be in place following the successful delivery of the programme.

Frequency of updates and monitoring of the risk and issues register

The risk and issues register is updated once a fortnight and is reviewed by members of the Senior Leadership Team. The risk register and monitoring processes have been set up to follow the programme delivery framework with issues coded in terms of impact (high/medium/low) and response, with the date of the last review being recorded in the register.

Financial monitoring

There is a dedicated Finance Manager in place to oversee delivery of the ISTP programme who supports regular and comprehensive financial monitoring and reporting. Budgetary reporting is currently monthly but has been applied flexibly to ensure more regular financial reporting was conducted as and when needed. The Finance Manager sits on the Project Board and reports to the Programme Board. Costs of the project are subject to Programme Board approval. We have reviewed and verified the frequency of financial reporting and conclude it is appropriate in scope and detail. Review of the June 2019 financial monitoring report for ISTP confirmed that the cumulative budget position over the various capital and revenue budget elements of the project is a £528k adverse variance across a full ISTP budget of some £71.2m.

Conclusion

Our review has confirmed that appropriate operational and governance arrangements were in place to oversee implementation of the ISTP including iOPS.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent

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

Matters on which we report by exception

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

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

We have not exercised any of these statutory reporting powers.

Other information published alongside the financial statements

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

5. OUR FEES

Fees for work as the Chief Constable's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Panel in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£42,000	£42,000

Fees for other work

We confirm that we have not undertaken any non-audit services for the Chief Constable in the year.

6. FORWARD LOOK

Financial outlook

The Chief Constable is well aware of the future financial challenges and the Strategic Financial Outlook (SFO) is updated and rolled forward regularly and currently covers the period 2019/20–2021/23. The SFO is refreshed and updated for known pressures, events and assumptions as part of the annual budget setting process. The plan covers the period 2019/20 to 2022/23 and sets out a requirement for further savings of £66.6m by 31 March 2023 with savings of £40.8m identified to date.

The Home Office has indicated that it may review the Police Funding Formula in the near future and this could have an adverse impact on the overall funding available. This would place further pressure on the SFO and work will continue to identify specific areas in where expenditure may be reduced.

Operational challenges

During 2018/19, the Chief Constable was subject to a HMICFRS PEEL inspection resulting in the following assessments:

- the extent to which the force is effective at reducing crime and keeping people safe **requires improvement**.
- the extent to which the force operates efficiently and sustainably **requires improvement**.
- the extent to which the force treats the public and its workforce legitimately is **good**

The Chief Constable faces the challenges of working to address the issues identified alongside finding required savings while tackling increasing demands. In order to meet these challenges, the Chief Constable will require continued good governance and strong risk and project management arrangements and this is recognised within the 2018/19 Annual Governance Statement.

How we will work with the Chief Constable

In terms of the technical challenges around the production of the statement of accounts, we will continue to offer accounting workshops to finance officers, and the audit team will continue to work with them to share our knowledge of new accounting developments. We will also be on hand to discuss any issues as and when they arise.

We will also share relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

CONTACT

Mark Kirkham

Partner

Phone: 0113 394 5315

Mobile: 07747 764 529

Email: mark.kirkham@mazars.co.uk

Chris Whittingham

Senior Manager

Phone: 0161 238 9349

Mobile: 07909 985 324

Email:
chris.whittingham@mazars.co.uk