

Annual Audit Letter

Chief Constable of Greater Manchester Police

Year ending 31 March 2020





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1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Chief Constable of Greater Manchester Police ('the Chief Constable') for the year ended 31 March 2020. 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	Assessment	Summary
Audit of the financial statements	●	<p>Our auditor's report issued on 13 November 2020 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 2020 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
Other information published alongside the audited financial statements	●	<p>Our auditor's report 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 2020.</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> <p>The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.</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 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the National Audit Office and International Standards on Auditing. 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, 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 2020 and of its financial performance for the year then ended.

Our auditor's report was modified to include an emphasis of matters paragraph. This drew attention to the financial statement disclosure explaining that COVID-19 had contributed to 'material valuation uncertainty' in the Chief Constable's share of Greater Manchester Pension Fund's property assets included in the estimated net Pension Liability.



2. AUDIT OF THE FINANCIAL STATEMENTS

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 at numerous stages 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. We set materiality for the financial statements as a whole (financial statement materiality) and set a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Joint Audit Panel. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

Financial statement materiality	Our financial statement materiality is calculated at around 1.9% of Gross Operating Expenditure at the surplus/deficit on provision of services level.	£15m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£450k
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: <ul style="list-style-type: none">• Senior Officer Remuneration• Related Party Transactions	£5k £50k



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit 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 Standards and Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits	We addressed this risk through performing audit work over accounting estimates, financial journal entries and significant transactions outside the normal course of business or otherwise unusual.	Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters that we wish to highlight.



2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant audit risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Valuation of the Net Pension Liability</p> <p>The net pension liability represents a material element of GMP's balance sheet. GMP's liability is split between the Greater Manchester Pension Scheme and the Police Pension Scheme.</p> <p>The valuation of the pension scheme liabilities relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in GMP's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of GMP's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of GMP's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing GMP's pension obligation are not reasonable or appropriate to GMP's circumstances. This could have a material impact to the net pension liability in 2019/20.</p>	<p>We performed a range of audit tests, including, but not limited to:</p> <ul style="list-style-type: none"> • Liaising with the auditor of the Greater Manchester Pension Fund to obtain direct assurance over the controls surrounding membership, contributions and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. • Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. • Considering the impact of the remedy solution for the McCloud legal judgement on the net pension liability. • Agreeing the data in the IAS 19 valuation report provided by the Funds Actuaries for accounting purposes to the pension accounting entries and disclosures in the financial statements. 	<p>'Material valuation uncertainty' was disclosed on the Pension Fund's property assets as a result of COVID-19. As the Chief Constable's share of those assets in the net Pension Liability in its own balance sheet is material, the Chief Constable has disclosed this in Note 16 of the financial statements and we have reflected this in the 'emphasis of matter' paragraph in our Auditor's Report.</p>

Internal Control Recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. The matters we report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported.

We identified one internal control deficiency as part of our audit. This was not significant in nature and related to following the formal process for requesting access to an IT system. Management has agreed to strengthen arrangements during 2019/20 and we are content with Management's response.



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 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 at the Chief Constables being inadequate.

When we perform our work, we consider whether there are any areas requiring additional audit attention as a “Significant Audit Risk”, which we report to the Joint Audit Panel prior to finalising our conclusion. For 2019/20, we identified one significant risk. The significant risk identified was the financial resilience of the Chief Constable. The work we carried out in relation to significant risks is outlined on the following page.



3. VALUE FOR MONEY CONCLUSION

Significant audit risks

Risk	Commentary	Conclusion
<p>Financial Resilience</p> <p>The 2019/20 net budget was set at £589m, balanced by the Home Office Police Grant, GM Precept and the previous years' Council Tax surplus. Although the police grant for 2019/20 increased by £8.5m and GMP received a £6.6m one-off grant, these increases were predominantly absorbed by the increase of £14.1m relating to unfunded Pension Schemes.</p> <p>GMP continues to face significant financial challenges but these are not new and are not unique to GMP. However, the challenges do present a significant audit risk in respect of considering the arrangements that GMP has in place to deliver financial sustainability over the medium term.</p>	<p>The Force has a track record of achieving required savings and between 2011/12 and 2019/20 with over £200m of savings have been delivered. The 2019/20 revenue budget reflected ongoing financial challenges with funding, despite increasing costs and additional demands being placed on services. Although the police grant for 2019/20 increased by £8.5m and GMP received a £6.6m one-off grant, these increases were predominantly absorbed by the increase of £14.1m relating to unfunded Pension Schemes.</p> <p>Our review of the Chief Constable's in-year monitoring confirms that throughout the year GMP undertakes a robust review with regular monthly reporting to the Chief Officer Group. The reports provide a regular detailed report covering both capital and revenue.</p> <p>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 covers the period 2018/19 - 2021/22. However, the settlement for the police grant is annual which makes medium term planning more challenging. The SFO sets out clearly the governance arrangements that are in place to help deliver financial sustainability and is based on best and most up to date information.</p> <p>Responsibility for maintaining and applying reserves now rests with the Mayor rather than the Chief Constable. The Mayor both holds reserves and determines how they maybe applied. This limits the ability of the Chief Constable to undertake longer term financial planning. The SFO savings identified year on year to 2021/22 do not include the use of reserves to achieve the necessary financial position.</p>	<p>We conclude that for 2019/20 the Chief Constable has made adequate arrangements to deliver financial sustainability in the medium term.</p>

Overall Conclusion

Our auditor's report stated that, in all significant respects, the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



4. OTHER REPORTING RESPONSIBILITIES

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

The 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.

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

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.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

Area of work	2019/20 proposed fee	2019/20 final fee
Delivery of audit work under the NAO Code of Audit Practice	£42,000	
Fee Variations*:		
Recurrent scope changes due to increased regulatory expectations:		£2,998
• Additional Testing on Defined Benefit Pensions Schemes		
In year scope changes due to Covid-19 and pensions legal cases – including but not limited to:		£3,049
• impact of 'Material Valuation Uncertainty' on the Chief Constable's share of Pension Fund property assets;		
• updating audit risk assessments, including the value for money conclusion;		
• additional considerations of estimation uncertainty in going concern;		
• changes impacting pension liabilities through the McCloud and Goodwin legal cases.		
Final audit fee		£48,047

*Fee variations subject to confirmation from PSAA.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work will focus on three criteria specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code, we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and our view as to whether recommendations have been implemented satisfactorily.

The new Audit Code will result in additional officer time and auditor time and therefore audit fees.



6. FORWARD LOOK: AUDIT CHANGES 2020/21

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Standards and Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>



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