Greater London Authority

Year ending 31 March 2013

Annual Audit Letter

25 October 2013

Building a better
working world

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INVESTOR IN PEOPLE

Mr Boris Johnson
Mayor of London
Greater London Authority
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London SE1 2AA

25 October 2013

Dear Mr Johnson,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Greater London Authority and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Greater London Authority in the 2012/13 Audit Results Report issued on 25 September 2013.:

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of the Greater London Authority for their assistance during the course of our work.

Yours faithfully

Karl Havers
Partner
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued in March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of the Greater London Authority and its group for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2013 we issued an unqualified audit opinion on the financial statements of the Authority and its group.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 25 September 2013 we issued our Audit Results Report (ISA 260) in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 8 October 2013.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 8 October 2013 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers is of a reasonable standard; although problems were encountered obtaining supporting evidence in certain areas such as information from property management companies across the group and CPO provisions. In addition; due to significant accounting issues arising at LLDC, there were a number of late adjustments to the GLA group accounts, although it is acknowledged that these were outside of the GLA's control.

The audit of the whole of government accounts consolidation schedule encountered problems due to a number of material errors and omissions for the pack submitted for audit.

The main issues identified as part of our audit were:

Significant risk 1: Assessment of the GLA Group boundary

Our audit plan set out the significant changes that have taken place in the GLA family in 2012-2013. In light of this we undertook, an assessment of the GLA group boundary against the criteria set out in the two relevant international accounting standards IAS27. The purpose of the assessment was to conclude which functional bodies and other group entities fall within the boundary and therefore require consolidating into the GLA Group Financial Statements.

Our approach focused on assessing GLA's exposure to benefits and level of control that it has for each of the GLA's functional bodies. We paid particular attention to the definition of benefits derived compared to the purpose of the GLA, and we carefully considered the level of control over operations and finance that the GLA exerted over each entity. We assessed the processes in place to ensure all joint ventures are captured and treated appropriately; and ensured that appropriate consolidation procedures are applied to those bodies that lie within the group boundary.

We worked closely with the finance team on the assessment and concluded that only the London Legacy Development Corporation (LLDC) and Greater London Authority Holdings Ltd (GLAH) fall within the group boundary. We also concluded that TfL, MOPAC, LFEPA and London Development Agency (LDA) should not have been consolidated into the GLA Group accounts in previous periods. These entities were deconsolidated from the group accounts comparative amounts for both 2010/11 and 2011/12 by way of a prior period adjustment.

There were no matters arising from our audit of the prior period adjustment to deconsolidate TfL, MOPAC, LDA and LFEPA from GLA's financial statements and related disclosures.

There were no matters arising from our audit of the consolidation of GLAH and LLDC into the GLA's 2012-2013 financial statements. We have tried to consider how IFRS10 will be implemented in the Public Sector, and currently believe that re-consolidation of the above entities is unlikely. However, it is possible that IFRS10 could be changed for application in the public sector which then might lead to re-consolidation in the future. We are aware that responsibilities and governance changes can happen in the future also which could lead to a reconsideration of the Group boundary following those changes.

Significant risk 2: Accounting for the transfer into GLA and GLA group of the assets and liabilities from the London Development Agency; Housing and Communities Agency (London Region) and the London Thames Gateway Development Agency

On April 1 2012 the assets and liabilities of the London Development Agency; Housing and Communities Agency (London Region) and the London Thames Gateway Development Agency were transferred into the GLA. The Local Authority Accounting Code of Practice suggests that merger accounting should be applied in circumstances where the transfer takes places wholly within the public sector, particularly when services as well as assets are transferred – as was the case for each of the above to varying degrees.

We worked closely with the finance team; reviewing and testing the application of the merger accounting process; ensured that the consolidation and disclosure requirements of the Code of Practice and international accounting standards were fully complied with; and reviewed the consolidation procedures within the Authority. There were no matters arising from this work.

Significant risk 3: Significant accounting judgements and estimates, particularly provisions and contingent liabilities (all entities)

The financial statements of the GLA and its group are based in certain areas on the significant accounting judgements of the preparers of the accounts. The accounts also contain material accounting estimates; particularly provisions and contingent liabilities. Additional provisions have been transferred into the Authority and group as part of the LDA / HCA / LTGW transfer.

Our approach focused on assessing and testing the reasonableness of accounting judgements and estimates used in the preparation of the accounts and ensuring that accounting judgements and estimates are correctly disclosed in the accounts as required by IAS 8 and the Code of Practice. There were no matters arising from this work.

Significant risk 4: Pension valuations and disclosures

The Local Authority Accounting Code of Practice and IAS19 requires the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority's current pension fund deficit is a highly material and sensitive item and the Code requires this liability to be disclosed on the Authority's Balance Sheet. The information disclosed is based on the IAS19 report issued to the Authority by the actuaries to the administering body; the London Pension Fund Agency.

Our approach focused on liaising with the auditors of the London Pensions Authority, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Greater London Authority. In addition we assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the Audit Commission, PwC and on the review of that work by the EY pension's team. Detailed procedures were also undertaken in reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. There were no matters arising from this work.

Significant risk 5: Borrowing controls and compliance with prudential indicators

The Authority took on a significant amount of debt during the financial year in order to fund large scale capital projects elsewhere within the GLA family. The Authority needed to ensure compliance with treasury management strategy; borrowing controls and prudential indicators.

In addition, the Authority inherited a borrowing requirement of approximately £300m from the LDA which relates to LDA's property and capital transactions. The LDA's property business and related assets transferred to GLAP Ltd, the subsidiary undertaking of GLAH. The Authority entered into a loan agreement with GLAP Ltd on arms length terms to reflect this borrowing requirement, although no cash actually transferred to GLAP Ltd.

We reviewed the loan transactions undertaken during the year to ensure compliance with treasury management strategy and to verify the accounting entries within the financial statements; there were no matters arising.

Significant risk 6: Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. There were no issues arising from this work.

The Authority was 'green' rated in the latest NFI assessment. Good progress has been made on all NFI match reports across all datasets. The Authority appear on track to complete NFI reviews/investigations in reasonable time.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We issued an unqualified value for money conclusion on 30 September 2013.

2.3 Whole of government accounts

We reported to the National Audit office on 8 October 2013 the results of our work performed in relation the accuracy of the whole of government accounts consolidation pack prepared by the Authority.

The consolidation pack prepared by the Authority and submitted for audit contained a number of material errors and omissions. As a result of this we were unable to issue our assurance report on the pack until 8 October; which was after the statutory deadline of the 4 October 2013.

A significant amount of additional time was incurred in completing our WGA assurance work when compared to the original budget we had set.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. There are no issues to report regarding our work in this area.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Authority, as required, any significant deficiencies in internal control.

Our audit did not identify any control issues that we need to bring to your attention.

4. Fees update

A breakdown of our agreed fee for the Greater London Authority audit is shown below.

	Proposed final fee 2012/13 £	Scale fee 2012/13 £	Actual fee 2011/12 £
Total Audit Fee	185,195	140,000	141,200

We communicated our planned fee for the Authority audit in the Audit Plan issued in March this year. Subsequently we set out the circumstances and reasons why we were seeking a variation to the £84,720 GLA scale fee within the Audit Results Report. This variation has been agreed with management and the Audit Commission and therefore the rebased GLA fee has been set at £140,000.

We have also agreed with management a one-off additional fee of £45,195 on the 2012-2013 GLA audit. This additional fee reflects the time and cost of the extra audit procedures we undertook to complete the GLA group boundary accounting assessment and to review the prior period adjustment to deconsolidate TfL, MOPAC, LDA and LFEPA from the GLA's 2012-2013 financial statements. This additional fee is still subject to approval by the Audit Commission.

Other than our proposed one-off additional fee, there have been no other changes to the planned scope of our audit. We are not proposing any further variations to the GLA audit fee.