

Annual Audit Letter

Greater London Authority

Audit 2010/11



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Traffic light explanation
Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Overview

- The Greater London Authority (GLA) responded well to the challenges it faced this year, in particular:
 - the requirement to present its financial statements in accordance with a new accounting framework, that included for the first time consolidating the financial statements of its functional bodies into its group financial statements; and
 - managing the significant changes to the Authority resulting from the ongoing devolution of powers to the Mayor.

Audit opinion and financial statements

- I gave an unqualified opinion on the financial statements on 30 September 2011, meeting the statutory date.
- The Authority reacted positively to the new accounting framework and has produced a set of financial statements that overall complies

with the new requirements, although some adjustments to the financial statements were required.

Value for money

- I issued an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 30 September 2011.
- The Authority has a secure financial position going forward and is seeking further efficiencies during 2011/12.
- Arrangements have been put in place to manage the significant changes arising from the devolution of powers to the Mayor.

Current and future challenges

- Delivering devolved powers to the Mayor and managing its financial resources in a time of financial constraint will continue to be challenging for the Authority. Folding the functions of the London Development Agency (LDA) and the Homes and Communities Agency's London Region into the GLA will require the continuing development of effective governance, financial management and project management arrangements. Alongside these challenges 2012 will be a particularly busy year for the Authority with London 2012 and the elections taking place for the Mayor and the London Assembly.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds. I gave an unqualified opinion on the financial statements on 30 September 2011, meeting the statutory date.

Overall conclusion from the audit

The key financial reporting challenge for the Authority this year was to consolidate its functional bodies into its group accounts, for the first time, whilst meeting the requirement to prepare its financial statements in line with the newly introduced International Financial Reporting Standards (IFRS).

IFRS requirements differ significantly from the previous accounting framework and its adoption has been a major exercise because of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK (the Code) requirement for retrospective adoption of the new standards covering areas like leases. To prepare for IFRS, bodies needed robust project plans to ensure they can collect and review the necessary information to restate balances, often with considerable lead-in times, and agree these with auditors at an early stage. The Authority built on the good progress reported in last year's Annual Audit Letter and produced a set of financial statements that overall complied with the new requirements.

The need to consolidate the functional bodies into its group financial statements, as part of the new accounting framework, was not finally concluded until April 2011. Given this it is a considerable achievement by officers that I was able to issue an unqualified opinion by the due date. Some misstatements were found in the group financial statements:

- some as a result of changes to the draft accounts of the component bodies on which the consolidated accounts were based; and
- some as a result of the consolidation process that was new and unfamiliar to officers.

Material mis-statements in the group financial statements were amended by the Authority. Looking forward to next year officers have agreed to review the lessons learned from this year's consolidation process and will work with their colleagues in the functional bodies to improve the timeliness, quality and clarity of the financial statements.

Significant weaknesses in internal control

I did not identify any significant weaknesses in internal control during the course of my audit. Some matters for improvement were set out in my Annual Governance Report. Recommendations to address these issues have been agreed by officers.

Value for money

I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial governance within the Authority is led by the Executive Director of Resources. He is a key member of the Directors' Group that oversees the implementation of the Authority's Strategic Plan which aims to put into practice the Mayor's vision to make London 'the best big city in the world'. The plan integrates financial and corporate planning priorities and sets out the Authority's key deliverables.</p> <p>The Authority has a good track record of managing its financial resources within budget. The revenue outturn for 2010/11 is an underspend, before transfers to reserves, of £3 million against a budget of £140.4 million.</p> <p>The Government's comprehensive spending review reduced revenue spending for local authorities by 27 per cent over the next four years. However, the impact on the Authority is less severe due to a more beneficial phasing of the spending reductions compared with many other public sector bodies with government grant 3.4 per cent lower in 2011/12 than 2010/11, on a like for like basis.</p>

Criterion

Key messages

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The comprehensive spending review did secure the future of the three major capital investment projects in London overseen by the Mayor:

- the Olympics;
- the Transport for London (TfL) tube upgrade; and
- the Crossrail project.

Significant changes to the Authority's structure are taking place with the devolution of powers to the Mayor. Some of these changes commenced during 2010/11 and are proceeding well, most significantly the folding into the Authority of the London Development Agency and the Homes and Communities Agency's London Region. An Interim Director of Housing and Regeneration has been appointed to help deliver these changes. These changes have required the development of a new approach to investment and performance management that includes setting up an Investment and Performance Management Board.

Other changes moving forward include new powers for the Mayor to establish Mayoral Development Corporations to target regeneration where it is most needed and the replacement of the Metropolitan Police Authority with a new Mayor's Office for Policing and Crime.

Against this background of change the Authority continues to look for savings and efficiency's and during 2011/12 plans to save £5.9 million on its core Authority budget with a further £2.8 million in 2012/13. The Authority is also looking to generate future savings from developing shared services and collaborative procurement within the GLA group, but is aware that progress towards this has been slow and now needs to be accelerated.

Current and future challenges

Delivering devolved powers to the Mayor and managing its financial resources in a time of financial constraint will continue to be challenging for the Authority. Folding the functions of the LDA and the Homes and Communities Agency's London Region into the GLA will require the continuing development of effective governance, financial management and project management arrangements. Alongside these challenges 2012 will be a particularly busy year for the Authority with London 2012 and the elections taking place for the Mayor and the London Assembly.

Financial performance for 2011/12 is on target. The most recent forecast is a small underspend of £0.2 million against the overall revenue budget for the Authority of £155.1 million.

With continuing financial constraints on all public bodies there is a need to plan resources more efficiently and effectively for the years ahead, to achieve more for less. Although the Authority is better placed than many local government bodies due a more favourable phasing of spending cuts, it still needs to identify sizeable savings. A significant proportion of these are intended to come from shared services and collaborative procurement, where a challenging target has been set to generate group-wide savings of £150 million in both 2012/13 and 2013/14.

The devolution of powers to the Mayor is continuing throughout 2011/12 and by the start of 2012/13 the Authority will be bigger having taken on functions, assets and liabilities from the LDA and the Homes and Communities Agency's London Region. The Authority will need to develop its governance and financial management arrangements as a result. LDA brings particular challenges with some complex accounting arrangements and a portfolio of programmes that require effective project management to ensure that value for money is delivered. The Authority is aware of these challenges. To help develop effective arrangements going forward joint working has been taking place involving officers from both the Authority and LDA.

Other significant changes from the devolution of powers to the Mayor will include:

- the establishment of the Mayor's Office for Policing and Crime that is planned for early 2012 and is intended to make the Mayor directly accountable for the performance of policing in London; and
- the establishment of an Olympic Park Legacy Corporation that is likely to be created during 2012.

Alongside these challenges 2012 will be a particular busy year for the Authority. In May there is the election for the Mayor and the London Assembly. The Authority has been planning the arrangements for the next election for some time that includes building up its reserves to cover the election costs. Later on in the year the London 2012 Olympics and Paralympics games will take place, during which London will be the focal point of world attention. The Mayor has a key role in both overseeing the hosting of the games and managing its legacy.

Closing remarks

I have discussed and agreed this letter with the Head of Paid Service and the Executive Director of Resources. This letter will be issued to the Mayor and I will present this letter at the Audit Panel on 14 December 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued during the year.

Report	Date issued
Annual audit fee letter	June 2010
Audit plan	February 2011
Annual governance report	September 2011
Opinion on financial statements	September 2011
Value for money conclusion	September 2011
Whole of Government Accounts assurance statement	October 2011

Fee

This year's audit fee is set out in the table below.

	Fee
Audit fee letter	£129,500
Additional fees:	
■ providing observations on the Authority's proposals for accounting for its share of Crossrail	£7,500
■ auditing the group financial statements:	
– my work on the group financial statements	£20,000
– programme of work undertaken by KPMG, auditors of TfL, on the group financial statements at my request	£10,405
■ auditing the accounting treatment of the City Hall lease	£1,500
Total Fee	£168,905

A rebate of £5,634 was given to the Authority by the Audit Commission during the year.

The Authority has taken a positive and constructive approach to my audit. I wish to thank the Authority's staff for their support and co-operation during the audit.



Karen McConnell
District Auditor

November 2011

Appendix 1 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Agency on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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