

Annual Audit Letter

Greater London Authority

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (page 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 8).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Statement of Accounts on 30 September 2010.

2 The Authority submitted draft accounts for audit in accordance with the agreed timetable accompanied by a complete set of working papers produced to a good standard.

3 Our testing found one material error in the draft accounts which the Authority has corrected. This was due to errors with data supplied by a London Borough required by the Authority to compile its accounts. There were no other significant errors in the draft accounts.

4 I will continue to work closely with the Authority as it prepares for the move towards International Financial Reporting Standards (IFRS) in 2010/11.

Value for money

5 I issued an unqualified value for money conclusion on the 30 September 2010. This conclusion is informed by 'relevant criteria' covering specific aspects of audited bodies' arrangements which are specified by the Audit Commission.

6 I am satisfied that the Greater London Authority (GLA) has proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Current and future challenges

7 Looking forward the Authority, like all local government bodies, faces a significant challenge to deliver its strategic priorities and secure its financial health against the background of spending cuts announced in the Government's recent comprehensive spending review.

8 The structure of the GLA and its group is likely to undergo significant change with the implementation of the Mayor's proposals to extend his powers and those of the Authority and the London Assembly. A timetable to implement these proposals, much of which will be dependent on new legislation, is currently being developed.

9 I will continue to meet with Authority officers to update me on these and other significant issues, considering their impact on my responsibilities.

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 Authority's 2009/10 financial statements on 30 September, within the statutory target date.

Overall conclusion from the audit

10 In my Annual Governance Report I reported that:

- the Authority submitted draft accounts for audit in accordance with the agreed timetable accompanied by a complete set of working papers produced to a good standard;
- our testing found one material error in the draft accounts, due to errors with data supplied by a London Borough, which the Authority has corrected; and
- there were no other significant errors in the draft accounts or issues that I need to bring to your attention.

11 In 2010/11, the Authority will need present its financial statements based on the interpretation of International Financial Reporting Standards (IFRS), as set out in the Chartered Institute of Public Finance and Accountancy's Statement of Recommended Practice, instead of the UK reporting standards. This will be a challenge for all local government bodies and will result in a number of changes to the presentation of the accounts.

12 The Authority is making good progress. PricewaterhouseCoopers has been engaged to review the accounting treatment of the Authority's leases and finance staff are currently working towards restating the 1 April 2009 balance sheet and the 2009/10 financial statements.

Significant weaknesses in internal control

13 I did not identify any significant weaknesses in your internal control arrangements.

Value for money

I considered whether the Authority is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

14 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

15 However, I am still required by the Code of Audit Practice to issue a value for money (VFM) conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

16 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

17 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

18 This is a summary of my findings overleaf.

Table 1: **VFM conclusion**

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	NA
Workforce	Yes

19 I issued an unqualified conclusion stating that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

20 The Authority's financial planning is well linked to its overall strategies and the strategic plan covering three years clearly shows how resources will be used to deliver the Mayor's priorities. The Authority consults widely on its budget and has a good track record of operating within its overall budget.

21 The Authority demonstrates a good understanding of its costs and how they link to performance. Knowledge that was applied when it embarked on a shared services arrangement this year with Transport for London (TfL) for procurement, financial and legal services that will help to reduce transaction costs.

22 Part of the financial services shared arrangement involved the transfer of the Authority's general ledger onto TfL's SAP system in December 2009. There were some initial teething issues following the transfer that have now been addressed. SAP provides a more flexible and sophisticated financial monitoring and forecasting tool than its predecessor.

Governing the business

23 The Authority has a clear vision of intended outcomes for local people which shapes its commissioning and procurement, and is based on an ongoing analysis and understanding of need. Sustainable procurement is a priority for the Authority.

24 Work is underway to improve the Authority's arrangements for data quality that underpin its internal performance indicators, with a new data quality policy planned for roll out during 2010/11. The Authority has made a substantial investment in external data and uses this well to inform key decisions, for example, its economic development strategy. Arrangements for data security are sound.

25 Good building blocks for improved governance are in place with the implementation of a new corporate governance framework, but these improvements are not yet fully embedded across the organisation.

26 During the year the Authority increased the range of financial information it makes available to the public on its website, including all payments above £1,000 and details of all expenses claimed by the Mayor, Deputy Mayors, Directors, Mayoral Advisers and Assembly Members.

27 Effective risk management arrangements are in place. Counter fraud and corruption arrangements were strengthened during 2009/10. A capable internal audit function is maintained. A balanced and objective Audit Panel provides effective scrutiny of audit reports and monitors the progress made implementing action plans.

Managing resources

28 The organisation has successfully transformed its workforce over the previous year through its Organising for Delivery project that has produced a more flexible structure to meet its changing needs, and also delivered significant efficiency saving during 2009/10.

29 The Authority has good mechanisms in place to communicate and consult with staff. It has a strong track record of promoting equality and diversity. Sickness rates remain relatively low at 6.8 days average per employee, which is better than the public sector average and only marginally above the private sector average.

Approach to local value for money work from 2010/11

30 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

31 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

32 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

33 The recession has had a significant impact on all public bodies with the need to plan resources more efficiently and effectively for the years ahead, to achieve more for less.

34 The comprehensive spending review announced October 2010 has outlined the Government's plans to eliminate the structural deficit over the next four years. Much of the detail from the spending review has still to be announced, but with the Department of Communities and Local Government looking to reduce its revenue spending by 27 per cent over the next four years there will be significant challenges for all local government bodies. Even for those bodies, like the GLA, that currently have sound arrangements in place to deliver strategic priorities and secure sound financial health.

35 The comprehensive spending review has, however, secured the future of these major capital investment projects in London:

- the Olympics;
- the TfL tube upgrade; and
- the Crossrail project, that will by 2018 connect central London City, Canary Wharf, the West End and Heathrow Airport to areas east and west of the capital.

36 From 2010/11, the Authority will be contributing around £4.1 billion towards the projected £15.9 billion cost of the Crossrail project using income generated from a new business rate supplement. Officers have already determined, and discussed with me, how they intend to account for the Authority's share of Crossrail funding in the 2010/11 Statement of Accounts.

37 Alongside the financial challenges that it faces the Authority will also need to respond to the significant changes arising from the Mayor's announcement of proposals that will extend his powers and the powers of the Authority and the London Assembly. Many of the changes will require primary legislation and a timetable is currently being developed. The key changes proposed are:

- devolving the functions of the London Region of the Homes and Communities Agency to the GLA;
- folding the functions of the London Development Agency (LDA) into the GLA, and the LDA would cease to exist as a separate entity;
- the Olympic Park Legacy Company would become a Mayoral Development Corporation and be the focal point for Lower Lee Valley regeneration;
- the functions of the Metropolitan Police Authority would be divided between the Mayor and the London Assembly;

- responsibility for the Royal Parks Agency and Port of London Authority would be devolved from Central Government to the Mayor; and
- there would an increase in the Mayor's powers over adult skills and transport, and increased influence on the shape of health provision in London.

38 The Authority will continue to have a pivotal role in securing the Olympic legacy. A particular challenge, as outlined in a recent report by the London Assembly, will be addressing the outstanding residual Olympic debt and any other outstanding Olympic commitments inherited from the LDA on its demise, although this is dependent on the level of grant funding from Government.

39 I will continue to meet with Authority officers to update me on these and other significant issues, considering their impact on my responsibilities.

Closing remarks

40 I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources. A copy of the letter will be presented to the Mayor before it goes to the Audit Panel. I will present this letter at the Audit Panel on 7 December 2010.

41 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Table 2: **Audit reports**

Report	Date issued
Annual audit fee letter	April 2009
Opinion audit plan	April 2010
Annual Governance Report	September 2010
Opinion on financial statements	September 2010
VFM conclusion	September 2010

42 I have completed the audit within the fee agreed with the Authority.

Table 3: **Audit fees 2009/10**

	Proposed	Actual
Financial statements	72,000	72,000
Use of resources/VFM conclusion	50,000	50,000
Total audit fees	122,000	122,000

43 An additional piece of work on ethical governance was undertaken, at the Authority's request, using our powers to advise and assist public bodies as set out in the Local Government and Public Involvement in Health Act 2007. This work has been completed and separately reported to the Authority. A fee of £27,565 was charged for delivering this work.

44 The Authority has taken a positive and helpful approach to our audit. I wish to thank Authority staff for their support and cooperation during the audit.

Les Kidner
District Auditor
November 2010

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 Authority 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

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 money, people and time.

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- any third party.



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