

Greater London
Authority Group
Audit results report
Year ended 31 March 2018

July 2018



EY

Building a better
working world

Private and Confidential

July 2018

Dear Mayor

We are pleased to attach our audit results report. This report summarises our audit conclusion in relation to the audit of the Greater London Authority Group for 2017/18.

We have completed our audit of the Greater London Authority Group (the Authority) for the year ended 31st March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 31st July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Mayor, Directors of Greater London Authority Holdings and GLA Land and Property, the Audit Panel, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We would be happy to discuss the contents of this report with you.

Yours faithfully



Karl Havers

Partner

For and on behalf of Ernst & Young LLP

Encl.

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between 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 "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Mayor, Directors of Greater London Authority Holdings and GLA Land and Property, the Audit Panel, other members of the Authority, and senior management of Greater London Authority Group in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Mayor and Directors those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Mayor and Directors for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report dated March 2018, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £32 million. The basis of our assessment has remained consistent with prior years at 1% of total expenditure. We updated our planning materiality assessment using the draft consolidated results. Based on our materiality measure of total expenditure (revenue and capital), we have updated our overall materiality assessment to £49 million. This results in updated performance materiality, at 75% of overall materiality, of £37 million, and an updated threshold for reporting misstatements of £2.5 million.

In common with the previous financial year, we have adopted a fully substantive approach to our audit of the Group. We have met with management throughout the audit to discuss findings as they emerged. This report summarises our overall conclusions.

Status of the audit

We have substantially completed our audit of the Greater London Authority Group's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue unqualified opinions on the Authority, Greater London Authority Holdings (GLAH), and GLA Land and Property (GLAP) financial statements. However until work is complete, further amendments may arise:

- Completion of subsequent events procedures up to the date of the audit opinions
- Review of the final versions of the financial statements
- Receipt and review of the signed management representation letter

The draft opinion for GLA Group is at section 3. We expect to issue our Audit Certificate following completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission in August.

Audit differences

We identified 3 unadjusted audit differences in the draft financial statements which management has chosen not to adjust.

We ask that they be corrected or a rationale as to why they are not corrected be approved by the Mayor and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £8.8 million (increase to the surplus on the provision of services). We agree with management's assessment that the impact is not material.

We have also identified a number of audit differences and disclosure amendments which have been adjusted by management and are not sufficiently significant to bring to your attention. Details of uncorrected differences can be found in Section 4 Audit Differences.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Greater London Authority Group's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

These include:

- Pension valuations
- Property valuations
- The valuation of the impact of onerous contracts within E20 Stadium LLP (£200 million)
- Business rates appeal provision
- GLA group boundary assessment
- Fraud risks

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Mayor.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified the following significant risk:

- Governance and financing challenges associated with the GLA group bodies

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

We note that the Greater London Authority continues to engage closely with the other group bodies. Governance arrangements for the newly established London Fire Commissioner are currently being embedded and will form an area of focus for us in 2018/19.

In relation to the financial challenges associated with the GLA group bodies, we note that the GLA have modelled sources of income available to it in the medium to longer term, as well as the funding requirements of the group. The model is live and subject to regular updates. It will be key in supporting the Group's ability to comply with the new requirement under the CIPFA Prudential Code 2017 to produce a long-term Capital Strategy. A key element that will need to be updated during 2018/19 is in relation to modelling the capital requirements of the London Legacy Development Corporation, particularly regarding its housing strategy. The development of the Capital Strategy will form an area of focus for us in 2018/19.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We anticipate concluding the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission in August. To date we have no matters to report.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence, which includes details of non-audit services provided and safeguards adopted. We have no matters to bring to your attention.



02 Areas of Audit Focus

Areas of Audit Focus

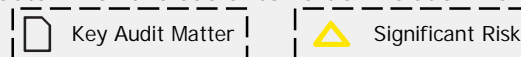
Significant risk

Pension liability valuation

What is the risk?

The Group's current pension fund deficit is a material item (£155 million). The valuation of scheme liabilities is sensitive since small changes in assumptions can have a material impact on the financial statements. This estimation gives rise to a higher risk.

The GLA records a small share of the overall pool of assets such that there would need to be a huge change in the value of assets to lead to a material error in the GLA accounts. We consider this to be unlikely as 77% of the scheme assets are level 1 and 2 assets which are easier to value. As such we consider the risk of error from the asset valuation to be low risk.



The Code requires the Group to disclose this liability on the Group's Balance Sheet. The information disclosed is based on the IAS 19 report issued by the actuaries to the administering body, the London Pensions Fund Authority.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily significant changes in assumptions made by the actuary.

We have understood the composition of the pension fund assets, of which the GLA Group has a combined share of less than 6%. We noted that of the total reported fund value of £5.5 billion, 62% of assets are level 1 (derived from quoted prices in active markets); 15% are level 2, and 23% are level 3 which require the greatest degree of judgement.

What did we do?

We used our pension experts to assist in our review of whether management's assumptions are within an acceptable range.

We have obtained information from GLA's pension scheme auditors, including their confirmation that the controls in place to determine the accuracy of asset data and completeness and accuracy of membership data submitted to the actuary, and ensured it was consistent with payroll information for GLA and LLDC.

We have compared the reported return on investment to external benchmarks based on the assets held.

We have understood the procedures performed by the fund auditor in giving us the assurance over the values, assessed their competence, and reviewed their assurance reports to us.

We have audited the disclosure of deficit and assumptions in the financial statements to ensure that it complies with disclosure requirements.

What are our conclusions?

No exceptions have been noted in testing concerning the accuracy and completeness of data supplied to the Barnet Waddingham (the actuary).

We found no issues with the independence and objectivity of the actuary.

We found that reported return on assets were within a reasonable range, when compared against external benchmarks.

A significant assumption made by the actuary was that asset valuations would not move materially between December 2017 and March 2018. This assumption was applied to all organisations within the scheme. We normally expect to see that the estimated value is different from the actual fund values. Our pensions specialists have advised that 1-2% is not unreasonable as an estimation uncertainty. Management have obtained a revised IAS 19 report as at 31 March 2018. This has demonstrated that the difference in the fund value at year end is 1% and is not material. They have therefore opted not to amend the financial statements, resulting in an uncorrected difference of £2.5 million. No other issues have been noted in pension asset valuations.

The methodology applied previously by Barnet Waddingham to derive the discount rate and RPI inflation assumptions has been updated in 2017/18 to take account of the specific duration of the scheme's liabilities. We are satisfied that the assumptions applied by the actuary fall within acceptable ranges.



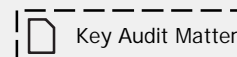
Areas of Audit Focus

Significant risk

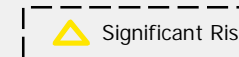
Property valuations

What is the risk?

The unique and material nature of the London Legacy Development Corporation's non-current assets and the basis on which they are valued, means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.



Key Audit Matter



Significant Risk

A similar risk exists in relation to GLAP's property assets, which are classified as property plant and equipment, investment property or inventory. The classification impacts directly on the appropriate valuation basis.

What judgements are we focused on?

We focused on the assumptions that could have the biggest impact on property valuations:

A key assumption driving the movement in the Corporation's investment property valuations is the level of assumed affordable housing.

The interpretation of 'highest and best use' is also a key judgement, since the assets are valued under IFRS 13.

For GLAP's inventory assets, a key assumption is the future intended use, since this drives the valuation basis and therefore the assessment of NRV.

What are our conclusions?

We challenged the assumptions underpinning the valuations. Our main conclusions are set out below.

- The assumed percentage of affordable housing used in the valuation of some of the Olympic Park sites falls short of the target set out by the Mayor of London in the London Plan 2016.
- Our view is that the ongoing ability to obtain planning permission is a factor in the determination of highest and best use (since it must be legally permissible).
- The level of affordable housing to be delivered on the Corporation's remaining sites (not yet under contract) is subject to ongoing discussions with the GLA and planning permission. The level assumed in the valuation at 31 March 2018 is therefore a judgement.
- We have challenged whether the classification of assets remains appropriate given the intended use and concluded that it remains appropriate while neither the Company nor the Corporation is the intended landlord where affordable housing is being delivered.
- One site where the intended use of land is residential did not have a valuation basis that reflected this. This has been adjusted, reducing the valuation by £10 million. For a second asset we noted that the valuation basis did not match the current intended use. We are satisfied, however, that this would not have a material impact on the valuation.
- For one GLAP investment property asset, the NPV of forecast receipts was miscalculated, and an incorrect cost was included, resulting in an understatement of £5.4 million which is not material to GLA Group.
- We have asked for enhanced narrative disclosure to explain the estimation uncertainty regarding residential values and intended future use.

What did we do?

We confirmed that the Group's valuers are members of RICS and registered valuers. We reviewed the instructions provided to the valuer against the requirements of the Code and IFRS and found no issues.

We engaged our internal expert to assess the appropriateness of the methodology and assumptions applied by the valuer, particularly in relation to the Queen Elizabeth Olympic Park valuation which accounts for over 60% of the investment property balance.

We assessed whether the valuation basis matched current plans and tendering activity for the use of assets, and reperformed a sample of the valuers' calculations.

We have confirmed that the information provided by the valuer as the management's expert has been appropriately reflected in the financial statements.

Significant risk

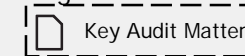
Business rates appeal provision

What is the risk?

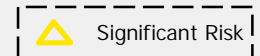
The Localisation of Business Rates from April 2013 resulted in a requirement for authorities to make a provision for potential refunds to ratepayers arising from changes to property valuations through appeals and changes in circumstances.

The outcome of appeals is difficult to estimate since they are determined by a third party (the Valuation Office). The Greater London Authority (GLA) recognises 37% of the total provision determined by London Billing Authorities, and relies on information from them to determine its accounting entries.

In 2016/17 the GLA received 20% of all business rates income in London and also recorded the same share of provisions and debtors and creditors on its balance sheet. Its share increased to 37% from 1 April 2017. A revaluation of properties took effect from 1 April 2017, along with a change to the appeals process; with the introduction of a new three stage approach – Check, Challenge, Appeal. This revised process will make the assessment of both the number and value of successful appeals not yet lodged more difficult.



Key Audit Matter



Significant Risk

What judgements are we focused on?

There is no historic data related to the likelihood of success of appeals associated with the 2017 valuation listing, therefore this element of the provision is subject to a greater level of estimation uncertainty. There is therefore an assumption made by most London Boroughs that the level of success and/or the resulting adjustment will be consistent with that seen for the 2010 rating list.

What did we do?

We understood and reviewed the steps taken by the Authority to ensure that the provision is reasonable and compliant with IAS 37.

We agreed the provision to appropriate underlying information, specifically business rates returns and financial statements.

For a sample of billing Authorities that represent 66% of the total GLA provision closing balance, we made inquiries of auditors of the London Billing Authorities to gain assurance over the underlying data provided. We asked them for specific assurances in relation to the provisions associated with the 2017 valuation listing.

We challenged the approach taken to determine a level of provision associated with appeals not yet lodged, and calculated a range of error in relation to differing approaches applied by billing Authorities. We assessed the differences in approaches taken to assess whether any systemic bias could occur.

What are our conclusions?

The GLA share of the provision (£310 million) has been correctly calculated based on the returns produced by the London Boroughs. The Authority has also undertaken a thorough assessment of the method of calculating the provision, and concluded that overall the provision is reasonable.

We have asked management to amend the disclosure to reflect the movement in the provision rather than disclosing it net.

We have made enquiries of auditors of the five London Boroughs that form the bulk of the provision to understand the procedures undertaken and the assurance gained.

Approaches adopted by Authorities in determining the level of provision is broadly consistent, however, we identified some differences in methodology such as the inclusion of a contingency and the assumption of a significant level of changes in circumstances over and above the provision calculated. The possible impact of this combined with an error in one of the borough calculations, is to overstate the GLA share of the provision by £5 million, which is immaterial.



Areas of Audit Focus

Significant risk

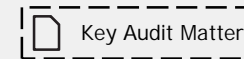
E2O Onerous contract provision

What is the risk?

In 2016/17, E2O Stadium LLP completed its transformation of the former Olympic Stadium and commenced trading. When the stadium commenced operations it became clear that for two of its three key contracts, the expenditure associated is likely to exceed the income received, rendering them onerous under IAS 37.

The valuation of the associated provision is based on E2O's 10 year business plan. It is highly judgemental and based on a number of assumptions.

In 2017/18, the provision has been fully consolidated into the Greater London Authority Group accounts and therefore presents a risk of material error.



What judgements are we focused on?

- The 10 year business plan contains judgements over anticipated expenditure, performance of key partners, and new income streams.
- Management's judgement is that the valuation of the Stadium asset, which is based on the business plan, is an appropriate proxy for the impact of the onerous contracts and therefore for the onerous contract provision.
- Any discount rates applied to the level of loss demonstrated in the business plan, and the period over which cash flows are assumed to continue at this level are judgements made by the valuer and accepted by management.
- The valuation and provision assume that E2O is a going concern, and that it will continue to receive funding.

What did we do?

- EY are auditors of E2O Stadium LLP and have been able to place reliance on the work performed by the subsidiary audit team.
- We reviewed the inputs into the provision calculation, most notably the E2O Stadium LLP 10 year business plan, testing key elements back to source documentation and identifying and challenging key judgements. We also ensured that we understood the movements compared to the prior year plan.

What are our conclusions?

- We have performed our own calculations of the provision with various assumptions which result in a provision of approximately £200 million.
- We have therefore concluded that the closing value of the provision is not unreasonable for the reasons noted.
- We note that the provision is highly dependent on future actions and business plans. It could therefore vary significantly from the amounts currently used. We nevertheless believe that the onerous contract provision is a reasonable estimate of future losses without substantial changes to the business plan and contractual matrix at this point in time. The assessment has assumed no substantial changes to the plan in the short term.



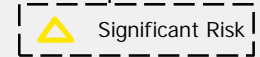
Areas of Audit Focus

Significant risk

Assessment of GLA Group Boundary and preparation of group accounts

What is the risk?

The role of the Authority, along with its structure and working relationships, has continued to evolve over time. Three key changes are of relevance to the 2017/18 audit: The creation of the London Fire Commissioner as a corporation sole from 1 April 2018, bringing fire and rescue services in London under the direct responsibility of the Mayor of London; the acquisition of SME Wholesale Finance London Limited and London Co-Investment Fund LLP; and the change in the ownership structure of E20 Stadium LLP. On 1 December 2017, Stratford East London Holdings Limited, a newly formed wholly owned subsidiary of London Legacy Development Corporation, replaced Newham Legacy Investments as a member of the partnership.



It is therefore important that the GLA continues to revisit on an annual basis its assessment of the group boundary and the resulting accounting treatment. The assessment will need to consider all entities both within the GLA family and beyond under IFRS 10: Consolidated Financial Statements and IFRS 11: Joint Arrangements.

What judgements are we focused on?

The key judgements in relation to the Group accounts are whether or not the Group has control as defined by IFRS 10, and if so the point at which the Group gained full control.

For E20 we have considered whether control passed from the date that the partnership was legally restructured, or whether in substance it passed from the date that Newham Legacy Investments Ltd ceased providing funding to the partnership, when the risks of the ongoing loss in E20 transferred in full to the Corporation and therefore to the GLA as ultimate parent.

What did we do?

We have considered and challenged management's accounting papers in relation to the entities to be included within the group boundary and the method of accounting for them.

We have reviewed Mayoral and Director decisions, as well as meeting minutes, to look for evidence of control and timing of control passing. We have also consulted with subject matter experts internally on the matter of the consolidation of E20 Stadium LLP and the point from which line by line consolidation was required.

We assessed the recognition of the net loss on acquisition against IFRS 3.

We have engaged with the auditors of SME Wholesale Finance and London Co-Investment Fund LLP; assessed their independence and competence; and obtained and reviewed their key working papers on material balances. We have tested the valuation of investments.

We have audited the resulting transactions to ensure that they reflect our conclusions.

What are our conclusions?

Management has assessed that up to 31 March 2018, there were no indications that the Group had full control over the London Fire Commissioner. It has, however, consolidated SME Wholesale Finance Limited (SMEWFL), London Co-Investment Fund (LCIF), and E20 Stadium LLP (E20) as subsidiaries. We agree with management's conclusions regarding the group boundary.

Regarding E20, Management's judgement is that control passed from the date of the legal restructure of the partnership, 1 December 2017, and not before. Based on our consideration of their paper, our analysis of IFRS 10, and our discussions with our internal subject matter experts, we are satisfied that this judgement is not unreasonable.

E20, SMEWFL and LCIF have all been acquired for nil consideration. The net assets of LCIF and SMEWFL constitute a 'bargain purchase' and are therefore correctly treated as a gain in accordance with IFRS 3. The loss in E20 has been treated as a negative gain, or loss. This is the equivalent of immediately impairing any goodwill recognised, and therefore we are satisfied that the ultimate accounting treatment is reasonable.

We have found no issues with the independence or competence of the auditors of SME Wholesale Finance London Limited and London Co-Investment Fund LLP. The valuation of investments falls within an acceptable range.

We have identified no significant errors in the consolidation.

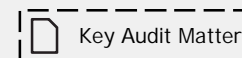
Significant risk

Risk of fraud in revenue and expenditure recognition

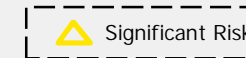
What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.

We considered this presumed risk in relation to those significant income streams and areas of expenditure which could be subject to manipulation, and identified the revenue from property disposals recognised in GLA Land and Property as an area of risk.



Key Audit Matter



Significant Risk

Income in relation to disposal of investment property at London Legacy Development Corporation was identified as an area of risk at planning. We confirmed that total income from disposals this year was £12 million during 2017/18. Since this revenue stream was not material to the group, we were satisfied that this no longer represented a risk of material overstatement to the Group.

What judgements are we focused on?

The Group recognises income from the disposal of property. A proportion of proceeds is payable to third parties.

The value and timing of revenue recognised could be manipulated. We have therefore identified this income stream as a significant risk.

We have assessed that although Grant and taxation income is significant to the group, it is not subject to a manipulation risk since it is determined or collected by third parties, and is easily verifiable.

What did we do?

We have understood the Group's revenue recognition policies and confirmed that they comply with IAS 18.

We tested a sample of property disposals back to source information including contracts, evidence of disposal receipts into the bank, and completion statements. Through this test we verified the amounts recorded in the financial statements, and confirmed that they were appropriately recognised in the 2017/18 financial year.

We also tested that elements of disposal proceeds that should be shared with third parties (specifically in relation to Greenwich Peninsula) had been appropriately calculated.

Finally, we performed specific testing of income recognised close to the year-end.

What are our conclusions?

Our testing of revenue recognised included (where possible) obtaining evidence of receipts. For assets disposed under finance leases we obtained copies of the lease agreements. In all instances, all disposals recognised in the year were found to have been treated appropriately.

We found no errors in our recalculation of the proportion of proceeds due to third parties.

Our testing of income recognised close to the year-end found no instances of deliberate manipulation or recognition of revenue in the incorrect financial year.

We have therefore identified no issues with the recognition of revenue.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement. The risk of management override manifests itself at the GLA primarily through the possibility that management could take action to override controls and manipulate in year financial transactions that impact GLA's medium to longer term projected financial position and specifically its council tax requirement.

The principle opportunity for the GLA to do this, given their role as a funding body, is via manipulation of the classification of grants awarded between capital and revenue. Capital grants are treated as REFCUS (Revenue Expenditure Funded by Capital Under Statute) and are therefore added back to the general fund balance. Another area of possible manipulation is in the valuation of provisions.



What judgements are we focused on?

There are two provisions that are material to the GLA group, each of which have been considered separately as significant risks.

REFCUS represents a significant area of expenditure for the Group (£904 million). If incorrectly financed from capital, this would have a significant impact on the General Fund balance and therefore the Council tax requirement.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed material accounting estimates which could impact on the general fund balance, specifically the E20 onerous contract provision and the NDR Appeals provision, for evidence of management bias;
- We evaluated the business rationale for any significant unusual transactions which could indicate a previously unidentified risk; and
- We tested the classification of expenditure classified as REFCUS to ensure that it met the recognition criteria.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied in relation to material estimates.

We did not identify any other transactions during our audit which appeared unusual or outside the Group's normal course of business.

We were satisfied that REFCUS has been appropriately classified. The majority of REFCUS relates to Transport for London projects (the northern line extension and Crossrail) as well as Housing Zone grants.



Areas of Audit Focus



Other matters

The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.

The CIPFA/LASAAC Local Authority Accounting Code Board met on 6th June 2017. This Board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.

The minutes of this meeting corroborate our view that Local Authority income streams from contracts with customers are immaterial "income streams for local authorities [are] very substantially less material than income from taxation." (CIPFA/LASAAC Local Authority Code Board meeting - 6th June 2017 - para 11.5). Income from taxation and grants does not fall within the scope of IFRS 15 as it is not contractually based revenue from customers.

Although a large number of the Group's income streams are taxation or grant based, the following income streams are within the scope of IFRS 15 and will need to be assessed:

- fees and charges for services under statutory requirements – e.g. planning fees;
- rental and other income from investment properties
- Income from events from the Olympic Park

Management has determined that there will not be a material impact.

Another accounting standard that will be relevant in 2018/19 and which could impact on the Group is IFRS 9 which concerns financial instruments. Management has yet to perform an assessment of the anticipated impact.

IFRS 16 will require all leases to be recognised on the balance sheet. It has an effective date of 1 January 2019, and therefore the Authority will be required to undertake analysis of its leases during 2018/19 to ensure appropriate recognition under the revised standard.



03 Audit Report



Audit Report

Draft audit report

Below is the draft opinion for the GLA Group. We also anticipate issuing unqualified opinions for GLA Land and Property and Greater London Authority Holdings.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE GREATER LONDON AUTHORITY

Opinion

We have audited the financial statements of the Greater London Authority Group (GLA) for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Movement in Reserves Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement;
- related notes 1 to 55,
- Fund Account,
- Business Rates Supplement Revenue Account; and
- related note 56

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Greater London Authority and Greater London Authority Group as at 31 March 2018 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 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt on the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters	<ul style="list-style-type: none"> • Revenue recognition • Business rates appeals provision • E20 onerous contract provision • Property valuation • Pension liability valuation
Materiality	• Overall group materiality of £49m which represents 1% of group operating and capital expenditure.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Revenue Recognition

Risk	Our response to the risk	Key observations communicated to the Mayor
<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We considered this presumed risk in relation to those significant income streams and areas of expenditure which could be subject to manipulation, and identified the revenue from property disposals recognised in GLA Land and Property as an area of risk. No other components contained material revenue from external sales.</p>	<p>We addressed our risk through substantive testing. Our testing included:</p> <ul style="list-style-type: none">• Understanding the Authority's revenue recognition policies and confirming that they complied with IAS 18.• Testing a sample of property disposals back to source information including contracts, evidence of disposal receipts into the bank, and completion statements. Through this test we verified the amounts recorded in the financial statements, and confirmed that they were appropriately recognised in the 2017/18 financial year.• Testing that elements of disposal proceeds that should be shared with third parties (specifically in relation to Greenwich Peninsula) had been appropriately calculated.	<p>The basis on which income is recognised is reasonable.</p>



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Business Rates Appeal Provision

Risk	Our response to the risk	Key observations communicated to the Mayor
<p>The Localisation of Business Rates from April 2013 resulted in a requirement for authorities to make a provision for potential refunds to ratepayers arising from changes to property valuations through appeals and changes in circumstances.</p> <p>The outcome of appeals is difficult to estimate since they are determined by a third party (the Valuation Office). The Greater London Authority (GLA) recognises 37% of the total provision determined by London Billing Authorities, and relies on information from them to determine its accounting entries.</p> <p>In 2016/17 the GLA received 20% of all business rates income in London and also recorded the same share of provisions and debtors and creditors on its balance sheet. Its share increased to 37% from 1 April 2017.</p> <p>A revaluation of properties took effect from 1 April 2017, along with a change to the appeals process, with the introduction of a new three stage approach- Check, Challenge, Appeal. This revised process makes the assessment of both the number and value of successful appeals not yet lodged more judgemental.</p> <p>For this reason, we consider that the appeals provision represents a greater risk of material misstatement than in the prior year. Refer to notes 3 and 41 in the statement of accounts.</p>	<p>We addressed our risk through substantive testing:</p> <ul style="list-style-type: none"> • We identified and assessed the steps taken by the Authority to ensure that the information provided by the London Billing Authorities has fully taken account of national trends concerning types and rates of appeals, as well as their settlement history where available. • We have reviewed the Authority's provision for business rate appeals to ensure it has been calculated on a reasonable basis and is compliant with the requirements of IAS 37. As part of this we ensured the provision is supported by appropriate evidence from the London Billing Authorities, specifically draft NNDR3 returns and financial statements. • For a sample of billing Authorities that represent 66% of the total GLA provision closing balance, we liaised with the auditors of the London Billing Authorities to gain assurance over the underlying data provided. We asked for specific assurances in relation to the provisions associated with the 2017 valuation listing since we assessed that this element of the provision was subject to a greater degree of estimation uncertainty. We also understood the auditors' procedures. • We challenged the approach taken to determine a level of provision associated with appeals not yet lodged, and calculated a range of possible error in relation to differing approaches applied by billing Authorities. • We assessed the differences in approaches across London Boroughs to assess whether any systemic bias could occur. • We tested the detailed accounting for business rates to ensure the Authority's accounts are materially accurate and compliant with the CIPFA Accounting Code in this area. 	<p>The appeals provision estimate falls within an acceptable range overall, and that the uncertainties associated with determining the value of the provision have been appropriately disclosed within the financial statements.</p>



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

E20 Onerous contract provision

Risk	Our response to the risk	Key observations communicated to the Mayor
<p>In 2016/17, E20 Stadium LLP completed its transformation of the former Olympic Stadium and commenced trading. When the stadium commenced operations it became clear that for two of its three key contracts, the expenditure associated is likely to exceed the income received, rendering them onerous under IAS 37.</p> <p>The valuation of the associated provision is based on E20's 10 year business plan. It is highly judgemental and based on a number of assumptions. The key assumptions include the period to forecast, discount rates to apply, and the future forecast costs which are subject to restructuring plans.</p> <p>In 2017/18, the provision has been fully consolidated into the Greater London Authority Group accounts for the first time following ownership restructuring, and presents a risk of material error. Refer to notes 3 and 41 in the statement of accounts.</p>	<p>We addressed our risk through substantive testing:</p> <ul style="list-style-type: none"> • We reviewed the inputs into the provision calculation which were the E20 Stadium LLP 10 year business plan and the discount rate applied. • We tested assumed income within the business plan back to source documentation. • We identified and challenged key judgements within the plan. • We also ensured that we understood the reason for the movement in the business plan as compared to the 2016/17 version. • We performed our own calculations of the provision varying the assumptions to assess the key sensitivities in the model. 	<p>The onerous contract provision is a reasonable estimate of future losses without substantial changes to the business plan at this point in time. The uncertainties are appropriately disclosed in the financial statements.</p>



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Property valuation

Risk	Our response to the risk	Key observations communicated to the Mayor
<p>The unique and material nature of the London Legacy Development Corporation's non-current assets and the basis on which they are valued, means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.</p> <p>The level of affordable housing to be provided is a key assumption within the valuations, and is currently uncertain.</p> <p>A similar risk exists in relation to GLAP's property assets, which are classified as property plant and equipment, investment property or inventory. The classification and intended future use impacts directly on the valuation.</p> <p>Key assumptions lead to a high degree of judgement in order to value these assets.</p>	<p>The following procedures were performed as part of our substantive testing:</p> <ul style="list-style-type: none"> • We met with GLA Group's external valuers and discussed the methodology applied and key assumptions used. • We validated the assumptions contained in the valuations with reference to source documentation including leases, tendering information and contracts where available. Where assumptions were based on Authority or Corporation plans, we ensured that these assumptions were up to date. • We reperformed valuation calculations for a sample of assets, verifying key inputs against source documents as part of this process. • We used our internal valuation experts to assist in our review of whether the Group's key assumptions in relation to the Olympic Park are within an acceptable range based on comparative market data for build costs. • We tested that property additions and disposals had taken place in the year, and that the valuation had been appropriately updated for them. • We obtained management representation as to the validity of the planned affordable housing assumptions with respect to key sites. 	<p>We have concluded that property valuations are within an acceptable range, and that the assumptions and associated uncertainties are appropriate and appropriately disclosed.</p>

Draft audit report

Our opinion on the financial statements (cont.)

Pension liability valuation

Risk	Our response to the risk	Key observations communicated to the Mayor
<p>The Group's current pension fund deficit is a material item (£155 million). The valuation of scheme liabilities is sensitive since small changes in assumptions which can have a material impact on the financial statements. This estimation gives rise to a higher risk.</p> <p>The GLA records a small share of the overall pool of assets such that there would need to be a huge change in the value of assets to lead to a material error in the GLA accounts. We consider this to be unlikely as 77% of the scheme assets are level 1 and 2 assets which are easier to value. As such we consider the risk of error from the asset valuation to be low risk.</p> <p>The Code requires the Group to disclose this liability on the Group's Balance Sheet.</p> <p>The information disclosed is based on the IAS 19 report issued by the actuaries to the administering body, the London Pensions Fund Authority.</p> <p>Refer to note 21 in the statement of accounts.</p>	<p>The following procedures were performed as part of our substantive testing:</p> <ul style="list-style-type: none"> • We used our pension experts to assist in our review of whether management's assumptions are within an acceptable range. • We have obtained information from GLA's pension scheme auditors, including their confirmation that the controls in place to determine the accuracy of asset data and completeness and accuracy of membership data submitted to the actuary. • We have understood the composition of the pension fund assets, of which the GLA Group has a combined share of less than 6%. • We noted that of the total reported fund value of £5.5 billion, 62% of assets are level 1 (derived from quoted prices in active markets); 15% are level 2, and 23% are level 3 which require the greatest degree of judgement. • We have compared the reported return on investment to external benchmarks based on the assets held, and concluded that it sits within a reasonable range. • We have understood the procedures performed by the fund auditor in giving us the assurance over the values, assessed their competence, and reviewed their assurance reports to us. • We have ensured that the data submitted to the actuary is consistent with the payroll information which we have audited for the Greater London Authority and London Legacy Development Corporation, since these entities result in the majority of the group's pension deficit. • We have analysed the scheme's return on assets by asset class and compared them to our expectations. • We have audited the disclosure of deficit and assumptions in the financial statements to ensure that it complies with disclosure requirements. 	<p>We have concluded that the assumptions used in determining the actuarial valuations are within an acceptable range and that they are appropriately disclosed in the financial statements.</p>



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Authority and Group, and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the six reporting components of the Group, we selected four components which represent 99% of the Group's gross expenditure, and 99% of the Groups' total assets

Of the six components we selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining three components "Specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £49 million (2017: £32 million), which is 1% (2017: 1%) of group operational and capital expenditure. The magnitude of capital expenditure means that we consider both revenue and capital expenditure to be of interest to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £39 million (2017: £24 million). In setting performance materiality at this percentage we have considered previous year audit findings, and the historic trend of adjustments. Based on prior year audits, as well as our own work to date, we have found that there is a history of low instance of error.



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Mayor and Executive Director of Resources that we would report to them all uncorrected audit differences in excess of £2.5 million (2017: £2.0 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Executive Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Greater London Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;

we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Responsibility of Executive Director of Resources

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 11, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Greater London Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Greater London Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Greater London Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Draft audit report

Our opinion on the financial statements (cont.)

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Greater London Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Mayor, for our audit work, for this report, or for the opinions we have formed.

Karl Havers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
July 2018

The maintenance and integrity of the Greater London Authority web site is the responsibility of the members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known”, “projected” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation. Projected differences are those identified in representative testing, and extrapolated.

We highlight the following misstatements to the financial statements for Greater London Authority Group (and single entity) which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Mayor and Directors and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
		Assets current	Assets non current)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Reserves Debit/(Credit)
Errors						
Projected differences						
<ul style="list-style-type: none"> Error identified in sample testing: Accrual raised in error and retained in creditor balance. Error value is £75 but when extrapolated the total error is £3.4 million overstatement of creditors and REFCUS expenditure 	(3,383)			3,383		
Known differences:						
<ul style="list-style-type: none"> Investment property valuation contained an incorrect NPV calculation and overstated cost assumption. 	(5,424)		5,424			
<ul style="list-style-type: none"> Pension asset valuation is based on December 2017 values. When updated to March 2018 values this results in an understatement of the net pension liability. 					(2,469)	2,469
Balance sheet totals	N/A	0	5,424	3,383	(2,469)	2,469
Cumulative effect of uncorrected misstatements before turnaround effect	(8,807)					
Turnaround effect. See Note 1 below.	(2,305)					
Cumulative effect of uncorrected misstatements, after turnaround effect	(11,112)					

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2018.

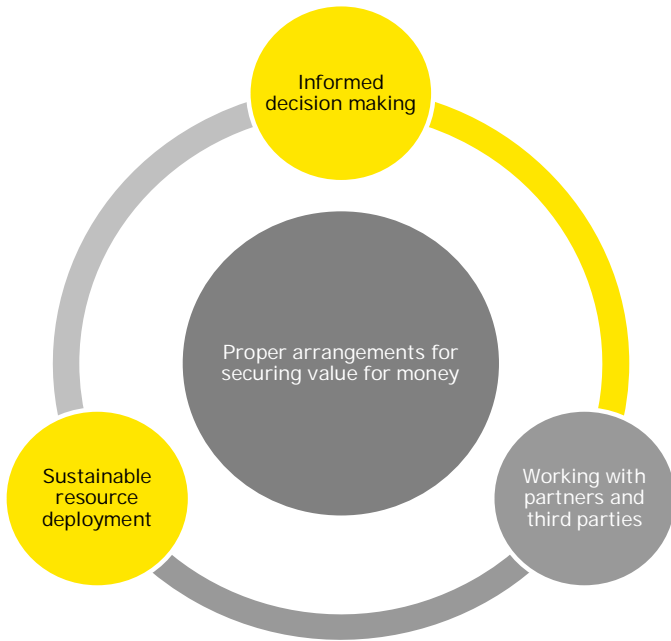
Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period. We identified in the prior year that income relating to 2017/18 had been recognised in 2016/17. The error value shown is an extrapolated error.



05

Value for Money Risks





Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We identified one significant risk around these arrangements. The table which follows presents our findings in response to this risk.

We expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p><u>Governance and financing challenges associated with the GLA group bodies</u></p> <p>The Cultural and Education District Project (now known as East Bank) is being undertaken by London Legacy Development Corporation (LLDC). LLDC are one of the entities who are currently within the GLA's group boundary and whose accounts are consolidated into the GLA group financial statements.</p> <p>The project is by far the most significant project which the LLDC has undertaken. Its main objective is the continued development of the Olympic Park and the securing of the Olympic legacy. The project has a highly significant funding requirement and the GLA are providing funding directly to the LLDC in relation to this. Although the majority of total funding is being provided by third parties, including the Government, a specific charitable fund and a number of educational and cultural bodies involved in the project, the GLA are required to underwrite the cost of the project. As a result, the GLA is exposed to any shortfalls in the funding being provided by third parties in the medium to long term. Similarly, London Legacy Development Corporation provides funding to E20 Stadium LLP.</p> <p>In 2016/17, E20 Stadium LLP identified a material uncertainty concerning going concern. Since then, the partnership has changed to include Stratford East London Holdings Ltd (a newly established wholly owned subsidiary of London Legacy Development Corporation) in place of Newham Legacy Investments Limited. The LLP is reviewing its structure and operations to enable the organisation to move to a financially sustainable position whilst seeking to contribute to local regeneration and social improvement objectives.</p> <p>The Greater London Authority is exposed via the Corporation to both financial and reputation risks from the operation of E20 Stadium LLP, which have increased as it now has greater exposure to the risks and rewards of the partnership.</p> <p>The overall level of funding required by LLDC will in part be linked to its requirement to comply with the Mayor's affordable housing targets.</p> <p>The challenge to generate income commercially and therefore reduce reliance on Greater London Authority funding alongside the requirement to support in the achievement of the Mayor's objectives is a tension that equally applies to other functional bodies.</p> <p>Finally, changes in the group with the addition of Funding London and establishment of the London Fire Commissioner as a corporation sole will require the GLA to have robust governance arrangements in place.</p>	<p>Take informed decisions</p> <p>Deploy resources in a sustainable manner</p> <p>Work with partners and other third parties</p>	<p>2017/18 has seen significant progress in the East Bank project; including submission of the Full Business Case to government and the finalisation of agreements with a number of partners early in 2018/19. We note that there is still an element of risk in relation to one partner. This has however been quantified and reported to the GLA via its engagement with Corporation management, its representation on the CED Board, and its access to Corporation reporting.</p> <p>In relation to E20, the restructuring of the partnership has had a positive impact on the ability of the Corporation to exercise governance over E20, since it now has full control. This in turn has enabled the GLA to exercise greater oversight through its attendance at Board meetings.</p> <p>Progress has been made on the review of operations, such that a restructuring plan has been approved by the E20 Board and accepted by the Corporation Board, both in early 2018/19. The financial and reputation risk that the GLA is exposed to remains. The GLA continues to work closely with the Corporation in relation to this. Long term financing and funding requirements are being modelled by the GLA, however, the Corporation's housing strategy has not yet been finalised. The overall level of funding required by the Corporation therefore remains unknown. The governance arrangements to support the changes to the group are currently being embedded, however, to date there are no issues. We therefore have no matters to report.</p>



Other matters to bring to your attention

Looking forward

Both the East Bank (formerly known as the Cultural and Education District) project and the management of the finances of E20 Stadium LLP continue to present risks to the Greater London Authority. Progress has been made during 2017/18 concerning both. This will continue to form an area of focus in 2018/19, as the restructuring plan for E20 Stadium LLP is implemented.

In relation to the financial challenges associated with the GLA group bodies, we note that the GLA have modelled sources of income available to it in the medium to longer term, as well as the funding requirements of the group. The model is live and subject to regular updates. It will be key in supporting the Group's ability to comply with the new requirement under the CIPFA Prudential Code 2017 to produce a long-term Capital Strategy. A key element that will need to be updated during 2018/19 is in relation to modelling the capital requirements of the London Legacy Development Corporation particularly regarding its housing strategy. The development of the Capital Strategy will form an area of focus for us in 2018/19.



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements. We have provided comments to management which they have considered and reflected in the final version of the Annual Governance Statement. We have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We anticipate concluding our work in this area in August and will report any matters arising to you via our Annual Audit Letter.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

All significant matters arising from the audit have been discussed with management and are set out in section 03 of this report. Requested written representations are included at Appendix B. We have no further matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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 was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We do note, however, that in a number of instances it has been difficult to source documentation to corroborate assumptions contained in property valuations. Given the materiality of the balances concerned, and the propensity for key assumptions to vary over time, we would recommend that an audit trail is retained to support officers in their assessment of the appropriateness of valuations.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this.

We confirm we have undertaken non-audit work outside the NAO Code of Audit Practice requirements in relation to providing support to the Authority in its assessment of the GLA Group Boundary.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. Full details of the services that we have provided and the related threats and safeguards are included below.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Support to the Authority in its assessment of the GLA Group Boundary: <ol style="list-style-type: none"> Matters that the Authority should consider in relation to accounting standards and the CIPFA Accounting Code. Materiality and other accounting considerations. 	Self-review	We have adopted the necessary safeguards in our completion of this work. The work was completed by a separate team from the Financial Accounting and Assurance Service, who have no involvement in the audit. The associated fee is insignificant in the context of the total audit fee (less than 5%). This work provided support on considerations and accounting principles. All accounting judgements have been made by management.

We confirm that this service has not been provided on a contingent fee basis.

Independence

Fee analysis

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

As noted on the previous page, we confirm that we have undertaken non-audit work outside the NAO Code of Audit Practice requirements in relation to the Authority's Group Boundary assessment carried out by the Authority. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Our final fee is subject to approval by Management and PSAA but will reflect additional procedures performed in relation to the group consolidation and the risk of error in property valuations.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
GLA Audit Fee – Code work	TBC	109,500	109,500	109,500
GLAH/P Audit Fee	112,000	112,000	N/A	112,000
Non-audit work – Certification of Grant Claims	N/A	N/A	N/A	2,300
Non-audit work – Group Boundary Considerations	10,000	10,000	N/A	N/A





A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, orange, blue, green) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

11 Appendices

Appendix A

Required communications with the Mayor

There are certain communications that we must provide to the those charged with governance of UK clients, which for Greater London Authority Group is the Mayor. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Authority of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. For Greater London Authority Holdings and GLA Land and Property there is an engagement letter dated 1 March 2017 and updated 2 March 2018.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report – March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report – July 2018





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to those charged with governance include:</p> <ul style="list-style-type: none"> • A declaration of independence • The identity of each key audit partner • The use of non-member firms or external specialists and confirmation of their independence • The nature and frequency of communications • A description of the scope and timing of the audit • Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits • Materiality • Any going concern issues identified • Any significant deficiencies in internal control identified and whether they have been resolved by management • Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to those charged with governance • Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof • The valuation methods used and any changes to these including first year audits • The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework • The identification of any non-EY component teams used in the group audit • The completeness of documentation and explanations received • Any significant difficulties encountered in the course of the audit • Any significant matters discussed with management • Any other matters considered significant 	<p>Audit planning report – March 2018 and Audit results report – July 2018</p>





Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Greater London Authority Group's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report – July 2018
Subsequent events	<ul style="list-style-type: none"> • Enquiry of those charged with governance where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to the Mayor's responsibility. 	Audit results report – July 2018

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	We have no such matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: <ul style="list-style-type: none"> • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit 	Audit planning report – March 2018 and Audit results report – July 2018

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • Those charged with governance should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Mayor may be aware of. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report – July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit planning report – March 2018 and Audit results report – July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	We have no such matters to report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report – July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report – March 2018 and Audit results report – July 2018

Management representation letter

GLA Group Management Representation Letter

[To be prepared on the entity's letterhead]

26 July 2018

Ernst & Young
[Address]

This letter of representations is provided in connection with your audit of the consolidated and Authority financial statements of the Greater London Authority Group ("the Group and Authority") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Authority financial statements give a true and fair view of the Group and Authority financial position of the Greater London Authority as of 31 March 2018 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and for the Group and Authority.

We understand that the purpose of your audit of our consolidated and Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Authority.

2. We acknowledge, as members of management of the Group and Authority, our responsibility for the fair presentation of the consolidated and Authority financial statements. We believe the consolidated and Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Authority and are free of material misstatements, including omissions. We have approved the consolidated and Authority financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.

4. As members of management of the Group and Authority, we believe that the Group and Authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 for the Group and Authority that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Authority financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatements*].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Authority's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Management representation letter

GLA Group Management Representation Letter (cont.)

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Authority financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Authority (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Authority financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Authority’s activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and Authority financial statements.

3. We have made available to you all minutes of the meetings of the Authority, and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Authority financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Authority has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Authority financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the events described in Note 55 to the consolidated and Authority financial statements, there have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and Authority financial statements or notes thereto.

Management representation letter

GLA Group Management Representation Letter (cont.)

F. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst the Authority and subsidiary undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Pensions, Property and Provision valuation estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the pensions, property and provisions estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Authority financial statements due to subsequent events.

I. Property valuations

1. Property valuations are based on current intentions for assets, contracts and tendering activity. We have disclosed to you and within the financial statements areas of uncertainty and our assumptions in this regard.

2. We confirm that a number of the properties within the GLA group may be subject to varying amounts of affordable housing. The London Plan is under review and will take up to 18 months to conclude. This plan could change the percentage allocation of affordable housing for a number of sites. Respecting this uncertainty, we believe that the current valuation assumptions on varying sites use the most up to date assumptions. We also confirm that it is our intention to tender the sites with affordable housing proportions that remain economically viable to bidders.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

K. Related Party Transactions

1. We confirm that all identified and material related party transactions are disclosed within Note 48 to the financial statements.

L. Specific Representations

Environmental Liabilities

We have disclosed to you all liabilities or contingencies arising from environmental matters. These liabilities or contingencies have been recognised, measured and disclosed, as appropriate, in the consolidated and Authority financial statements. The environmental liability(ies) included in the consolidated and Authority balance sheet(s) represents our best estimate of the potential loss(es) using assumptions that we believe represent the expected outcomes of the uncertainties. With respect to the valuation of related assets, we have considered the effect of environmental matters, and the carrying value of the relevant assets is recognised, measured and disclosed, as appropriate, in the consolidated and Authority financial statements. Any commitments related to environmental matters have been measured and disclosed, as appropriate, in the consolidated and authority financial statements.

Management representation letter

GLA Group Management Representation Letter (cont.)

Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Authority has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Authority's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the financial statements. All assets to which the Group and Authority has satisfactory title appear in the balance sheet(s).
2. The Group has included within its accounts all relevant long term assets within the categories of property, plant and equipment and investment property in line with IAS 16 and IAS 40.
3. Property Inventory has been properly classified and measured in accordance with IAS 2.

Reserves

1. We have properly recorded or disclosed in the consolidated and Authority financial statements the useable and unusable reserves.

Income and Indirect Taxes

1. We acknowledge our responsibility for the tax accounting methods adopted by the Group, which have been consistently applied in the current period, and for the current year income tax provision calculation.
2. We also acknowledge our responsibility for the plans with respect to future taxable income, which represent our estimates as to the outcome of those plans, based on available evidence, and for the significant assumptions used in our analysis. We would implement such strategies as necessary to prevent a tax operating loss or credit carryforward from expiring.
3. We have disclosed to you all tax opinions, correspondence with tax authorities, or other appropriate information that served as support for the accounting for potentially material matters.

Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the Pension Liability and Property Valuation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Authority financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

The Orbit Loan

1. Having made appropriate enquiries, we are satisfied that there are no undisclosed guarantees or secondary loan agreements that underwrite the loan agreement in place between the Legacy Corporation and ArcelorMittal.

Classification of Property

1. We confirm that the classification of property assets across property, plant & equipment; investment property; and inventory property within the financial statements is based on the best information we hold at this point in time.

E20 Stadium LLP Onerous contracts provision

1. As described in note 41, an assessment of E20 Stadium LLP's main contracts (in line with IAS 37) has concluded that two of these are deemed to be onerous – the West Ham concession agreement and the UK Athletics access agreement. Consequently, the Group is recognizing a provision for these losses. The provision is calculated based upon E20 Stadium's updated ten-year business plan (May 2018) and therefore contains a number of assumptions and estimates that are subject to change. This is considered the best estimate of future losses resulting from the current contracted terms and their consequential impact as reflected by the updated business plan. No subsequent events require an adjustment to the provision and disclosures included in the financial statements.

Management representation letter

GLA Group Management Representation Letter (cont.)

Loans to group entities

1. Having made appropriate enquiries, we are satisfied that the long term loans, including those made to GLA Land and Property Ltd and the London Legacy Development Corporation disclosed within long term debtors are fully recoverable and do not require impairment to the carrying value.

We confirm that we will have regard to London Legacy Development Corporation's requirement to repay its borrowings from capital receipts in our decisions concerning how the Corporation will support our affordable housing policy strategy. Our decisions will ensure that any shortfall in capital receipts resulting from our strategy will be funded.

Yours faithfully,

Martin Clarke
Executive Director - Resources

Sadiq Khan
Mayor of London

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ED None

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