



**Greater London Authority**

**Auditor's Annual Report  
Year ended 31 March 2021**

December 2021



**EY**

Building a better  
working world

# Contents

<b>Section</b>	<b>Page</b>
<b>01 - Executive Summary</b>	<b>03</b>
<b>02 - Purpose and responsibilities</b>	<b>06</b>
<b>03 - Financial statements audit</b>	<b>07</b>
<b>04 - Value for Money</b>	<b>15</b>
<b>05 – Other reporting issues</b>	<b>28</b>
<b>Appendix A – Fees</b>	<b>31</b>

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)” 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 and management of the Greater London Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Mayor and management of the Greater London Authority 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 management of the Greater London Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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

Section 1

# Executive Summary



## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Authority's:</b>	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 6 October 2021.
Going concern	We have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Authority's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Authority.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 6 October 2021 to the Mayor of the Greater London Authority.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

## Fees

We carried out our audit of the Authority's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address the audit risks set out in Section 3 of this report. We have discussed and agreed an associated additional fee with the Executive Director of Resources, which will be subject to determination by PSAA Ltd. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Authority staff for their assistance during the course of our work.

Janet Dawson

Partner  
For and on behalf of Ernst & Young LLP



Section 2

## Purpose and responsibilities



# Purpose and responsibilities

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This report summarises our audit work on the 2020/21 financial statements.

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## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Authority or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the indicative Audit Plan dated April 2021 and our update dated August 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Authority;
- If we identify a significant weakness in the Authority's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Authority**

The Authority is responsible for preparing and publishing its financial statements and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit





# Financial Statement Audit

## Key issues

We have issued an unqualified audit opinion on the Authority's 2020/21 financial statements.

The Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

On 6 October 2021, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Mayor of the Greater London Authority on 6 October 2021. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Applicable to:</p> <p>GLA Group GLA Single Entity GLA Holdings Ltd</p>	<p>We obtained a full list of journals posted to the general ledger during the year and analysed the journals using criteria we set to identify unusual journal types or amounts. We then tested a sample of journals that met our criteria, checking these to supporting documentation.</p> <p>We tested the accounting estimates most susceptible to bias, being the valuation of land and buildings and the local government pension scheme (LGPS) assets and liabilities.</p> <p>We did not identify any material weaknesses in controls or evidence of material management override. We did not identify any instances of inappropriate judgements or bias being applied.</p> <p>We did not identify any transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p>
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings is the most significant balance in the Authority's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p> <p>Applicable to:</p> <p>GLA Group GLAH</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"><li>• Reviewed the competency of the Authority's valuer and concluded they were appropriately competent to undertake the valuation;</li><li>• Reviewed the relationship of the valuer to the Authority and confirmed the valuer was appropriately independent;</li><li>• Reviewed the output of the Authority's valuer;</li><li>• Challenged the assumptions used by the Authority's valuer by reference to external evidence and our EY valuation specialists; and</li><li>• Tested accounting entries have been correctly processed in the financial statements.</li></ul> <p>We were satisfied that the Authority's valuation of land and building was materially stated.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under International Standards on Auditing (ISA) 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. We have considered this presumed risk in relation to significant income streams, which could be manipulated, and identified the following area of risk:</p> <ul style="list-style-type: none"><li>• GLA Land and Property recognises material income from property disposals, which is consolidated into GLA Holdings Ltd</li></ul> <p>Applicable to: GLA Holdings Ltd</p>	<p>We obtained a full list of the properties that had been disposed during the year and tested a sample back to supporting documentation, such as including sales invoices, receipts into the bank and lease agreements.</p> <p>We did not identify any material misstatements in revenue recognition from property disposals, or unusual transactions to indicate any misreporting of the financial position.</p>
<p><b>Incorrect classification of capital spend</b></p> <p>ISA 240 presumes a risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to classify capital spend as revenue under the accounting framework, which would have a significant impact on the General Fund balance and therefore the Council Tax requirement, if incorrectly financed.</p> <p>Applicable to: GLA Group GLA Single Entity</p>	<p>We obtained a listing of items classified as “revenue expenditure funded by capital under statute” (REFCUS) and tested a sample to check for appropriate classification and valuation. We challenged where the classification was based on judgement.</p> <p>We did not identify any material misstatements or incorrect classification of capital spend.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>E20 Onerous Contract Provision</b></p> <p>When the London Stadium became operational, it became clear that expenditure was likely to exceed income for two of its three key contracts, leading these contracts to be judged as onerous under the relevant accounting framework. A material provision has therefore been recognised in the financial statements, which is updated annually based on judgements made by management in the E20 five year business plan, which is extrapolated to ten years.</p> <p>As a material, judgemental balance, the provision is susceptible to misstatement.</p> <p>Applicable to: GLA Group</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"> <li>Reviewed the competency of the Authority's specialist and concluded they were appropriately competent to undertake the calculation;</li> <li>Reviewed the inputs into the provision calculation, most notably, the E20 5-year business plan (extrapolated to 10 years);</li> <li>Tested key elements back to supporting documentation and challenged the key judgements used by the Authority's specialist;</li> <li>Assessed the upsides and downsides in the calculation, as well as known changes that have occurred since the business plan was produced; and</li> <li>Reviewed key contracts and how they have been reflected in the business plan and provision calculation.</li> </ul> <p>We additionally performed shadow calculations, varying in timespan and discount rate, which indicated a possible range for the provision of £197 million - £212 million. The provision recognised in the accounts of £200.1m fell within this range. We therefore concluded that the onerous contract provision was a reasonable estimate at that point in time.</p>
<p><b>Assessment of the GLA Group Boundary and preparation of group accounts</b></p> <p>As a large complex organisation, it is 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 the relevant financial reporting framework.</p> <p>Following the establishment of the London Fire Commissioner as a corporation sole from 1 April 2018, the Authority has needed to assess whether or not it controls the corporation sole.</p> <p>Applicable to: GLA Group</p>	<p>We considered and challenged management's assessment in relation to London Fire Commissioner and whether or not it should be included within the group boundary.</p> <p>We reviewed Mayoral and Director decisions to look for evidence of control.</p> <p>We also looked for any evidence of changes in governance arrangements during 2020/21 on the matter of control of London Fire Commissioner.</p> <p>We agreed with management's conclusions regarding the group boundary, in particular that London Fire Commissioner was not under the control of the Authority and therefore was not within the group boundary for consolidating into the group accounts.</p>

Continued over.

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Valuation of loan investments</b></p> <p>GLA Holdings Ltd (GLAH) holds a portfolio of loan investments, as part of a wider strategy to assist in achieving the Mayor's affordable housing objectives. These loan investments need to be reviewed annually for indications of impairment or reduction in value.</p> <p>Covid-19 has caused significant disruption to the UK economy, including the real estate sector. The level of risk associated with these investments has increased as a result. Therefore, there is a higher level of complexity and estimation uncertainty in the year end valuation and impairment review.</p> <p>Applicable to:</p> <p>GLA Group GLA Holdings Ltd</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"><li>• Assessed the steps undertaken by management's specialist to ensure that the information used to inform the impairment review was reliable and accurate;</li><li>• Engaged our EY technical specialist to perform a review of a sample of loan investments; and</li><li>• Ensured that the disclosures associated with the loan investments were appropriate in both the GLAH and GLA Group financial statements.</li></ul> <p>We concluded that the valuations had been recorded appropriately, any losses had been recognised correctly and that the accounting was compliant with the requirements of the accounting framework.</p>
<p><b>Valuation of Long Term Debtors (Excluding LLDC and GLAP Debtors)</b></p> <p>The Authority holds a material portfolio of long-term debtors with various counterparties, including functional bodies, subsidiaries, other group bodies and organisations outside of the GLA Group. These investments need to be reviewed annually for indications of impairment or reduction in value.</p> <p>Covid-19 has caused significant disruption to the UK economy, including the real estate sector. The level of risk associated with these investments has increased as a result. Therefore, there is a higher level of complexity and estimation uncertainty in the year end valuation and impairment review.</p> <p>Applicable to:</p> <p>GLA Group GLA Single Entity</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"><li>• Assessed the steps undertaken by management's specialist to ensure that the information used to inform the impairment review was reliable and accurate;</li><li>• Engaged our EY technical specialist to perform a review of a sample of debts; and</li><li>• Ensured that the disclosures associated with the long-term debtors were appropriate in the financial statements.</li></ul> <p>We concluded that the valuation of long term debtors had been recorded appropriately, any losses had been recognised correctly and that the accounting was compliant with the requirements of the accounting framework.</p>

Continued over.



## Financial Statement Audit (continued)

In addition to the significant risks above, we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>The Authority is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Authority's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We challenged the adequacy of the Authority's going concern assessment and its disclosure in the financial statements by:</p> <ul style="list-style-type: none"> <li>• Evaluating supporting evidence for indications of bias;</li> <li>• Reviewing the cashflow forecast; and</li> <li>• Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, before drawing our conclusions on going concern.</li> </ul> <p>We were satisfied with the adequacy and sufficiency of the disclosures in relation to going concern.</p>
<p><b>Pension liability valuation</b></p> <p>The Authority is a member of the Local Government Pension Scheme (LGPS) administered by London Pension Fund Authority.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore the management of London Pension Fund Authority engage an actuary to undertake the calculations on their behalf.</p> <p>The Authority's pension fund deficit is a material estimated balance, which is required to be disclosed on the Authority's balance sheet. At 31 March 2021 this totalled £298.7 million for the Group.</p>	<p>To gain assurance over these balances, we</p> <ul style="list-style-type: none"> <li>• Liaised with the administering authority (London Pension Fund Authority) to obtain information and supporting evidence over the investment asset values;</li> <li>• Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors;</li> <li>• Reviewed the actuarial report and checked that the amounts agreed to the disclosures made in the Authority's financial statements; and</li> <li>• Undertook additional procedures to gain assurance over the material accuracy of the pension fund asset values at 31 March 2021 in order to assess the impact of any significant change on the disclosures in the Authority accounts.</li> </ul> <p>We did not identify any material misstatements in the valuation, accounting treatment or disclosure of LGPS transactions in the financial statements. The report from the auditor of the London Pension Fund Authority identified a reduction in the pension liability of GLA of £3.5 million (Group £3.7 million), which was not adjusted in the financial statements.</p>

Continued over.

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Business rates pooling and appeals provision</b></p> <p>Significant changes in the arrangements for the distribution of business rates were made by the Government in April 2013.</p> <p>The GLA receives 37% of all business rates income in London and also records the same share of provisions, debtors and creditors on its balance sheet.</p> <p>The provision figure is judgemental, and errors in the underlying data or judgements made by billing Authorities could result in a material error in the GLA financial statements.</p>	<p>To gain assurance over these balances, we</p> <ul style="list-style-type: none"> <li>Reviewed the steps taken by the Authority to ensure that the provision is reasonable and compliant with accounting standards;</li> <li>Agreed the provision to appropriate supporting information;</li> <li>Tested accounting entries to ensure they had been reflected correctly in the financial statements; and</li> <li>Assessed the steps taken by the Authority to ensure the disruption caused by Covid-19 had not adversely impacted on the accuracy and reasonableness of the provision.</li> </ul> <p>We did not identify any material misstatements in the figures associated with the business rates pooling and appeals provision.</p>
<p><b>Council tax and business rates bad debt provision</b></p> <p>In 2019/20, the balance of the council tax and business rates bad debt provision was material (£96.5 million and £64.5 million respectively).</p> <p>In calculating this provision, there is a high level of complexity and judgement and the key judgement impacted by Covid-19 will be assessing the recoverability of debtors.</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"> <li>Assessed the steps taken by the Authority to ensure that the provision is reasonable and compliant with accounting standards;</li> <li>Agreed the provision to appropriate supporting information;</li> <li>Tested accounting entries to ensure they had been reflected correctly in the financial statements; and</li> <li>Reviewed the steps taken by the Authority to ensure the disruption caused by Covid-19 had not adversely impacted on the accuracy and reasonableness of the provision.</li> </ul> <p>We did not identify any material misstatements in the bad debt provision for council tax and business rates.</p>
<p><b>Valuation of residential mortgage backed securities</b></p> <p>At 31 March 2021, the Authority held £700.7 million of residential mortgage backed securities. These are debt-based securities backed by the interest paid on loans for residences.</p> <p>While market updates indicate that longer term prospects for RMBS investments are strong, the impact of Covid-19 on these valuations may have a significant impact.</p>	<p>In response to this risk, we:</p> <ul style="list-style-type: none"> <li>Wrote to the fund managers to obtain valuation statements and confirmed the existence and valuation as at the balance sheet date; and</li> <li>Determined whether management had identified appropriate indicators of impairment, and verified that appropriate adjustments had been made in accordance with the Authority's accounting policies and applicable financial reporting framework.</li> </ul> <p>Our testing did not identify any material misstatements in the valuation of residential mortgage backed securities.</p>

Continued over.

# Financial Statement Audit (continued)

## Audit differences

We identified a small number of misstatements in disclosures which management corrected. However, two items in our findings were not adjusted in the accounts. These related to:

- A £6.6 million projected overstatement of other service expenditure, which leads to an understatement in the surplus on provision of services; and
- An increase in the pension fund assets value, notified to us by the pension fund auditor, which leads to an overstatement of £3.5 million in the pension liability for GLA (£3.7 million for the Group).

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £50 million (group: £51.8 million) as 1% of gross expenditure (revenue and capital) reported in the accounts. We consider gross expenditure, including capital expenditure, to be one of the principal considerations of the Authority.
<b>Reporting threshold</b>	We agreed with the Mayor that we would report all audit differences in excess of £2.5 million (group: £2.6 million).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Exit packages: We audited all disclosures and undertook procedures to confirm material completeness
- ▶ Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness



Section 4

## Value for Money





# Value for Money (VFM)

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We did not identify any risks of significant weaknesses in the Authority's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Mayor in our updated Audit Plan dated August 2021, which was based on a combination of our cumulative audit knowledge and experience, our review of Authority and committee reports, meetings with the Executive Director of Resources and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we identified two areas of further work in the Authority's VFM arrangements in relation to:

1. Governance and structure of subsidiaries
2. Finance arrangements and sustainability

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We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work on 6 October 2021 and did not identify any significant weaknesses in the Authority's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

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Our VFM commentary highlights relevant issues for the Authority and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

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

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

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The Authority has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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For 2020/21, the significant impact that the Covid-19 pandemic has had on the Authority has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

## Financial sustainability

For 2020/21, the Authority has had the arrangements we would expect to see to carry out its financial plan and manage its resources effectively. This ensures the Authority can continue to deliver its services.

## ***How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them***

The Authority has set a budget to facilitate the delivery of planned services; it was approved prior to the start of FY 2020/21. The budget is prepared annually and updated throughout the year.

Pressures are identified through the reporting structure from subsidiaries and functional bodies, which are then built into the Mayor's proposal for the funding arrangements across the Group. The budget is built up from communications both within the GLA and through the funding provided to its subsidiaries to ensure that all risks and pressures are identified (both internal and external to the Authority). This ensures that these are properly considered as part of the budget setting process and the medium term planning.

The Authority has a dual committee structure (London Assembly's Budget and Performance Committee and Corporate Investment Board) to enable monitoring and challenge of budgets through a process of quarterly reviews. The CIB provides internal challenge by the Mayor and advisors, whilst the Budget and Performance Committee holds the Mayor to account, through a public meeting.

## **Financial sustainability (continued)**

### ***How the body plans to bridge its funding gaps and identifies achievable savings***

The total savings and efficiencies presented in the 2021/22 budget process are estimated at £186 million across the GLA Group, which is 50% less than 2020/21. The 2020/21 savings (£372 million across the Group) were exceptional due to unrealised expenditure in 2020/21 as a result of Covid-19 impact.

According to the Mayor's Consolidated Budget 2021/22, the scale of future savings required across the Group in future years will continue to be substantial given ongoing uncertainties around the impact of the pandemic on revenues and costs in the medium term and lack of clear direction from the Government on funding arrangements beyond 31 March 2022. However, as the budget process progresses, certain elements of uncertainty are reduced with the effect that anticipated savings required to be identified within the budget also reduced.

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The Authority has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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The most significant contribution towards the targeted savings for 2021/22 is from Transport for London (TFL) (£100.5 million), with the majority coming from:

- The London Underground is to deliver savings of £73.7m through a modernisation plan; and
- A further £24.8million of new incremental savings will be achieved with commercial savings on the bus network.

The 2021/22 savings and efficiencies target that has been factored in the MTF5 appears prudent and considers economic factors such as uncertainty due to Covid-19, reduced Government grants and reduction in Council Tax income, which has necessitated scrutiny over expenses in order to manage the available resources with minimal impact on service delivery.

### ***How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities***

The Mayor is clear on his vision and strategic framework which articulates how he will deliver his statutory responsibilities. The Authority translates this into a consolidated budget across the Group, functional bodies, development corporations and subsidiaries, including the financial plans for enabling sustainable delivery of services. This forms the basis of monthly reporting to the London Assembly's Budget and Performance Committee.

The Authority also has a Corporate Risk Register, which identifies business risks, evaluates the significance of those risks and the likelihood of occurrence against strategic priorities.

## Financial sustainability (continued)

### ***How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system***

The Authority sets its budget annually, which links into the Mayor's strategies and plans. It then reports to each Budget and Performance Committee on key performance areas, including finances and performance indicators.

The Authority's financial plans include reporting on these areas as part of the GLA's mechanisms for monitoring the achievement of targets for each of the key performance areas. The reports are sufficiently granular to ensure that the reasons for underperformance can be identified and mitigating actions can be determined and built financial plans across the group to implement the actions.

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The Authority has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

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### ***How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.***

Financial plans are monitored at each Budget and Performance Committee and used to identify changes at an early stage and understand why there may be variances from the budget, in order that mitigating actions may be taken. The budget is updated at regular intervals, particularly when setting the budget for the forthcoming year, to ensure that it remains up to date and any emerging risks are identified immediately and built into the new budget, if needed. Monitoring of the Authority's financial pressures also extended to savings proposals, which were also regularly reviewed for deliverability and risk assessed by officers throughout the year.



## Governance

For 2020/21, the Authority has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

### ***How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud***

The Authority has a formal corporate risk register in place, which identifies business risks, evaluates the significance of those risks and the likelihood of occurrence. The Authority has a review process in place where senior management reviews the risks and the appropriateness of actions taken to manage risks periodically. In addition a bi-annual review is performed by the Audit Panel. New risks are identified and added to the register and the register includes details of control measures setting out the mitigating actions.

Further work has been undertaken by the Executive group in 2021/22 to review and reset the corporate risk register for the current environment post Covid 19, to ensure that it addresses the changing nature of the risks faced by the Authority.

The Authority has an internal audit service to help gain assurance over the effective operation of internal controls and as part of its arrangements to prevent and detect fraud. The Executive Director of Resources is responsible for the adequate provision of Internal Audit with oversight from the Audit Panel. Management is responsible for responding to the internal audit findings appropriately and in a timely manner with appropriate challenge from the Audit Panel.

The Authority's relevant areas of risk set out in the risk register are considered as part of each Internal Audit review.

### ***How the body approaches and carries out its annual budget setting process***

During 2020/21, as the potential impact of the pandemic emerged, the Authority was provided with budget guidance from the Mayor, which included three scenarios to be applied to the budgeting process for 2021/22, in order to achieve financial sustainability and deliver services. Each scenario made assumptions about council tax and business rate estimated losses, and then led to related allocations for each of the bodies within the GLA group.

The scenarios and supporting assumptions were realistic, and took into account the high levels of uncertainty associated with government funding plans and income forecasts. The result of successfully applying the three scenarios per functional body was the preparation of revised budget plans for 2021/22 and a view of the longer term basis for the Medium Term Financial Strategy for the GLA and bodies.

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The Authority has had the arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

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## Governance (continued)

***How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.***

The budget process each year commences with the Budget guidance (non-statutory) which is published annually by the Mayor for the GLA functional bodies. The 2020/21 draft budget was published for consultation on 18 December 2019. It included the Mayor's 2020/21 budget and draft capital spending plan. The Mayor's final budget was approved on 25 February 2020. The Mayor published his capital spending plan for the GLA Group on 27 February 2020.

The final budget is subject to quarterly financial and performance reporting at meetings chaired by the Mayor's Chief of Staff, including other senior officers and Mayoral Advisers. The quarterly reports are also considered by the Corporate Investment Board and by the Assembly's Budget and Performance Committee.

The Assembly's Budget and Performance Committee held meetings throughout 2020/21 and received quarterly monitoring reports from the GLA and all functional bodies. The Corporate Investment Board held meetings to review budget performance reports.

***How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.***

The Mayor has overall decision-making powers and regular Mayoral Decisions (MDs) are made. These are fully supported by documents and are publicly available on the Authority's website. Challenge on delivery relating to those decisions is made through the Assembly and various committees, who, while not charged with governance, do have an oversight role.

We note that management has set out its budget setting plan for the 2022/23 process and has communicated the timing for the process to the Budget and Performance Committee. The plan includes more opportunity for Members to discuss the budget, its risks, uncertainties, and underlying assumptions at each stage, and to consider the impact of those assumptions on the required actions for the GLA in the coming year. **We recommend that management continue to work to ensure that the budget setting process is transparent for and well understood by Members at each stage of the process.**

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The Authority has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## Governance (continued)

***How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).***

The Authority operates under the GLA Act 1999 and the GLA Act 2007. These Acts include the roles and responsibilities of the Mayor, Assembly and chief officers and the rules under which they operate, in particular, how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent and accountable to the community. All high-level processes are defined or derived from this legislation.

TfL Legal (the GLA's legal shared service), advises on the interpretation and application of the (GLA) Acts, including liaising closely with the Monitoring Office and Governance team as relevant. Executive decisions are made by the elected Mayor who is held to account by the Assembly through their public examination of policies and programmes through committee meetings, plenary sessions, site visits and investigations.

The Authority has appropriate policies and procedures in place to ensure that all staff are clear on their roles and responsibilities. The Monitoring Officer has overall oversight of ensuring legislative requirements are met, but this is done in conjunction with support from the Executive Director of Resources. All staff have a responsibility to act in accordance with the GLA Code of Ethics and Standards for Staff, which governs the standards of behaviour expected of officers, alongside a suite of other important governance policies and procedures which can be found on the Authority's website. Elected Members have a responsibility to act in accordance with the GLA Code of Conduct with regards to the standards of behaviour expected of them. These Codes are communicated as part of the induction process for both elected members and GLA staff. A programme of ongoing awareness training is in place for staff.

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The Authority has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

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## **Improving economy, efficiency and effectiveness**

For 2020/21, the Authority has had the arrangements we would expect to enable it to use information about its costs and performance to improve the way it manages and delivers services.

### ***How financial and performance information has been used to assess performance to identify areas for improvement.***

Finances and performance are monitored through the procedures of the Authority. This information is used to make sure sound financial decision making takes place.

For example, the work programme for the Budget and Performance Committee noted the Mayor's budget for 2020/21 was published in March 2020. It was emphasized that since then, the Covid-19 pandemic had resulted in an economic crisis for London and it was expected that this would impact the 2020/21 budget. The Budget and Performance Committee highlighted that it would incorporate the scrutiny of the impact of Covid-19 into the 2020/21 budget considerations. It was also envisaged that council tax income may fall as a result of residents being unable to pay due to employment restrictions arising from the pandemic.

In addition to the internal arrangements to identify improvements, the Authority has defined structures to monitor both the governance and financial performance of subsidiaries in line with their set mandates.

The Mayor's Chief of Staff is tasked with this responsibility, and sits on the Boards of these entities, supported by Senior Officers within the Authority and the Mayor's advisors. There are approved policy documents, statutory instruments, the GLA Act of 1999 and internal policies and procedures which outline the governance processes. There are defined frameworks to guide management with decision making concerning the affairs of these subsidiaries included within the above policy documents and our spot review identified no examples where the framework was not followed.

### ***How the body evaluates the services it provides to assess performance and identify areas for improvement***

The Authority is working with London Legacy Development Corporation (LLDC) and GLA Land & Property (GLAP) in order to deliver mayoral and strategic priorities as prescribed by various laws and legal instruments.

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The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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## **Improving economy, efficiency and effectiveness (continued)**

LLDC produces a quarterly performance report in line with the monitoring framework for all functional bodies. The Finance and Policy Liaison meeting provides a high-level forum for discussion of progress and performance on key developments and projects. Through its observer status, the Authority receives the regular financial monitoring and risk register information reported to the LLDC Board and its Committees.

The finances of GLAP are monitored through the financial procedures of the GLA. In particular, future financial projections are prepared by the Housing and Land Directorate of the Authority. This information is used to inform financial decisions made by the Authority concerning GLAP financing requirements. The long-term cash position for GLAP is monitored through the long-term model which sets out the future cash flow position. This is updated regularly to reflect the latest estimate of the long-term position. It is important to note that GLAP is not permitted to borrow directly from HM Treasury, but only through the Authority. Any GLAP short-term funding shortfalls are covered by borrowing from the Authority. The long-term model also ensures any Authority borrowing can be repaid.

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The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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### ***How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve***

As described previously, the Authority works closely with LLDC, GLAP and LCIF to deliver mayoral and strategic priorities and these organisations are seen as its significant partners.

As LLDC is a functional body it is required to develop its budget to deliver the Mayor's strategic priorities and demonstrate this in a budget submission. The budget and performance in delivering priorities is then monitored through the functional quarterly performance reporting process. In addition, Mayoral policy and direction is provided through meetings between senior officials. LLDC has a long-term financial plan which the Authority is briefed on and which is kept under review and funding requirements are reflected in the Authority's own financial plans.

As part of a consultation into new neighbourhoods in the Queen Elizabeth Olympic Park area, LLDC invited the local community to give feedback to inform the proposals in advance of an outline planning application being submitted in Spring 2021. The feedback was used to support different stages of the design and planning process and thus ensured that LLDC worked with stakeholders in the delivery of strategic priorities.



## **Improving economy, efficiency and effectiveness (continued)**

The GLA ensures that GLAP is delivering the services required of it by day to day monitoring of its transactions by members of the Housing and Land Directorate and on a financial basis by members of the Authority's finance team, which also prepares the financial statements for GLAP. Services are monitored on a more strategic basis by the oversight of the Steering group.

### ***How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.***

The Authority has a Code of Conduct, which governs the standards of behaviour expected of elected members and a Code of Ethics and Standards for Staff which applies to GLA officers. As set out earlier in this document, the Monitoring Officer has overall oversight of ensuring legislative requirements are met, with support from the Executive Director of Resources.

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The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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While the Mayor has overall decision-making powers and regular Mayoral Decisions (MDs) are made, challenge to these decisions are made through the Assembly and various committees. The Assembly has the power to challenge budgetary and strategic decisions the Mayor makes under the Localism Act 2011.

Monitoring of GLA Group bodies is prescribed by the GLA Group Corporate Governance Framework Agreement. This Agreement is made between the GLA and the GLA Group and we have ascertained that it provides a comprehensive guide to those with fiduciary duties in the subsidiaries and that it is followed.

A Finance and Policy Liaison meeting between GLA Executive and LLDC is held every six weeks. This enables oversight of key developments, projects and issues and enables the GLA Executive to provide policy and financial direction ahead of formal decision-making processes.

The Finance and Policy Liaison Committee includes the Mayor's Chief of Staff, deputy Mayors and Mayoral advisers and the Chair of LLDC together with senior officers from the GLA and LLDC. Senior Authority and LLDC Finance officers meet monthly to discuss LLDC financial issues. The Authority's exposure to risk from LLDC is captured on the GLA's Risk Register.

## **Improving economy, efficiency and effectiveness (continued)**

GLAP is a GLA-managed subsidiary company, according to the MDM. With the exception of those matters required by company law, such as approval of the accounts, GLAP activity is integrated with GLA decision making. This also means that GLAP is subject to all the control disciplines that apply to the rest of the GLA. This includes but is not limited to: compliance with all internal GLA policies and procedures; quarterly performance monitoring and reporting; risk management; and inclusion within Internal Audit planning.

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The Authority has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

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# VFM Commentary

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The Authority has agreed one recommendation which we will follow up as part of our 2021/22 VFM arrangements work.

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## **Recommendations**

As a result of the VFM procedures we have carried out we have agreed the following recommendation with the Authority:

### ***Recommendation 1***

We recommend that management continue to work to ensure that the budget setting process is transparent for and well understood by Members at each stage of the process.

### ***Management response***

**Agreed**

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The Authority faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

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## **Forward look**

Looking forward to 2021/22 and beyond, the Authority continues to face financial uncertainty in its budget planning. Although the accounting framework means that the going concern basis continues to be the appropriate basis for preparation of the financial statements, we consider the impact on our value for money arrangements work and our audit opinion in relation to the Authority's ability to support other group entities or functional bodies as required without a significant reduction in services.



Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Authority's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 20/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.



## Other Reporting Issues (cont'd)

### **Control Themes and Observations**

As part of our work, 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Mayor of Greater London Authority.

Appendix A

## Audit Fees



## Audit Fees

Our fee for 2020/21 is in line with the audit fee agreed and reported in our 2020/21 Audit Plan.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
<b>Total Audit Fee – Code work</b> (GLA Single entity and group)	200,240	200,240	229,943

For 2020/21 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Authority and additional work to address increase in Regulatory standards. The additional fee for 2020/21 has been discussed with management and remains subject to approval by PSAA Ltd.

We confirm we have not undertaken any non-audit work.

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