# Greater London Authority
# Audit results report
## Year ended 31 March 2019

July 2019

Building a better working world

Private and Confidential

July 2019

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 2018/19.

We have completed our audit of the Greater London Authority Group (the Authority) for the year ended 31st March 2019.

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. 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

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report dated January 2019, 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, with the following exceptions:

- We identified revenue recognition as a risk at planning both for Greater London Authority Group and Greater London Authority Holdings Group. On receipt of the draft financial statements, we considered that the value of revenue was sufficiently low that it no longer represented a risk of overstatement.
- We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure (both revenue and capital), we have updated our overall materiality assessment to £56 million (Audit Planning Report – £49 million). This results in updated performance materiality, at 75% of overall materiality, of £42 million, and an updated threshold for reporting misstatements of £2.8 million.
- We have also updated our group scoping as per the table shown below.

### Detailed scoping

| In scope components | Scope | Statutory audit performed by EY | Coverage | Current year rationale for group scoping | |
|---|---|---|---|---|---|
| | | | Gross Expenditure | Size | Risk |
| Greater London Authority | Full | ✔ | 93%[1] | Yes | Yes |
| London Legacy Development Corporation | Full | ✔ | 3% | Yes | Yes |
| E20 Stadium LLP | Specific | ✔ | 1% | Yes | Yes |
| GLAP | Specific | ✔ | 2% | Yes | Yes |
| SME Wholesale Financing Ltd | Specific | × | 0% | No | Yes |
| London Co-Investment Fund Ltd | Specific | × | 0% | No | Yes |
| Greater London Investment Fund Ltd | Specific | × | 0% | No | Yes |
| London Stadium 185 | Other procedures | ✔ | 0% | No | No |
| Old Oak and Park Royal Development Corporation | Other procedures | ✔ | 1% | No | No |
| London Travel Watch | Other procedures | × | 0% | No | No |
| TOTAL FULL & SPECIFIC SCOPE | | | 99% [2] | | |

[1] Adjusted for intra-group transactions

[2] The total is less than 100% as it reflects full and specific scope entities only

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

# Executive Summary

## Status of the audit

We have substantially completed our audit of the Greater London Authority (GLA) Group's financial statements for the year ended 31 March 2019 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:

- Manager and partner final review;
- Completion of subsequent events procedures up to the date of the audit opinions;
- Review of the final versions of the financial statements; and
- 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 September.

## Audit differences

There are no unadjusted audit differences arising from our audit.

Adjusted differences are not considered sufficiently significant to bring to the attention of those charged with governance. Details can be found in Section 4 Audit Differences.

## 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. 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
- 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

## 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. 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. In relation to Crossrail, we note that the GLA secured secondary legislation approval from Parliament to use Mayoral Community Infrastructure Levy to finance additional contributions.
Clarity on medium to longer term cost forecasts from Transport for London, London Legacy Development Corporation, and from 2019/20 Old Oak and Park Royal Development Corporation will continue to be critical to the GLA's ability to manage their overall finances. This will continue to be an area of focus for us in 2019/20.
We also noted that the Governance arrangements for London Fire Commissioner, which was established from 1 April 2018, were fit for purpose and operating effectively.

## Control observations

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

## 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 September. To date we have no matters to report.

We have no other matters to report.

## Independence

Please refer to Section 09 for our update on Independence.


# 02 Areas of Audit Focus

# Significant risk

## Business rates appeal provision

Key Audit Matter

Significant Risk

### What is the risk?

Significant changes in the arrangements for the distribution of business rates were made by the Government in April 2013 following the introduction of the 50% local rates retention scheme. As a result there was a requirement for individual authorities to make provision for potential refunds to ratepayers arising from successful appeals against their property valuations.

Appeals are made to the Valuation Office (VOA), and authorities are required to make judgements on the likelihood of appeals being successful and the financial impact of those appeals. Authorities may therefore find it difficult to obtain sufficient information to establish a reliable estimate as they are ultimately subject to the decisions and actions of third parties. The Greater London Authority (GLA) relies on information from the London Billing Authorities to determine its accounting entries.

2018/19 is the first year that NDR pooling has been in place across London, administered by the City of London. The GLA will receive 36% of all business rates income in London and also record the same share of provisions, debtors and creditors on its balance sheet. Two other changes that took place in 2017/18 remain relevant to the level of risk associated:

- 2017/18 saw the introduction of a new three stage approach to business rates appeals – Check, Challenge, Appeal. This revised process has made the assessment of both the number and value of successful appeals not yet lodged more difficult.
- The earlier deadline for the production and approval of financial statements introduced by the Accounts and Audit Regulations 2015 requires the GLA to receive information on closing collection fund balances earlier from the London Billing Authorities.

The provision figure is judgemental, and errors in the underlying data or judgements made by billing Authorities could result in material error in the GLA financial statements.

# Significant risk

## Business rates appeal provision

### 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, we also obtained direct assurance from the London Billing Authorities either by performing work on their calculations to assess for reasonableness or making inquiries of their auditors. We paid particular attention 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 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 (£280 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.

Approaches adopted by Authorities in determining the level of provision is broadly consistent, however, we identified some differences in methodology in relation to appeals not yet lodged and the inclusion of a contingencies.

The possible impact of this on the GLA share of the provision varies between over and understatement, but we are satisfied that the appeals provision estimate falls within an acceptable range overall, and the uncertainties associated with determining the value of the provision have been appropriately disclosed within the financial statements.

# Significant risk

## E20 onerous contract provision

### What is the risk?

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.
A material provision has therefore been recognised. This provision is updated annually based on judgements made by management in the E20 ten year business plan. In 2018/19, this will necessarily reflect progress made against the LLP's restructuring plans and any future plans.

As a material, judgemental balance, the provision is susceptible to misstatement.

Key Audit Matter

Significant Risk

### What judgements are we focused on?

- The Stadium asset valuation is undertaken annually by management's independent valuers, based on a E20's business plan, which is extrapolated and then discounted into perpetuity. The valuation produced is negative. E20 Stadium LLP management has recognised the Stadium at a nil carrying value and used the valuation of the Stadium as a proxy for the onerous contract provision.
- In 2018/19, a 5-year business plan was produced which was extrapolated over 10 years and then used to support the valuation of the provision. The 5-year business plan contains judgements over anticipated expenditure, performance of the Stadium operator, and 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 net expenditure forecast 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 E20 is a going concern, and that it will continue to receive funding from its parent, LLDC, which is ultimately from the GLA.

### What did we do?

- We made enquiries of management's independent valuers to determine that they were appropriately qualified. We also reviewed the instructions provided to the valuer and the valuer's calculations.
- We reviewed the inputs into the provision calculation, most notably, the E20 5-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, particularly in relation to the acquisition of London Stadium 185 and the incorporation of their income and expenditure streams.
- We additionally asked management to perform a sensitivity analysis which we also reviewed and challenged.

# Significant risk

## E20 onerous contract provision (cont.)

### What are our conclusions?

- The 5-year business plan shows an increase in net expenditure as compared to the 2017/18 plan. We have corroborated management's assertion that the increase relates to upfront capital investment, which is typical of invest-to-save strategies associated with restructuring.
- We assessed the completeness of costs captured and identified no material omissions.
- We obtained inputs, such as contracts, supporting the value of the income streams recognised in the plan and identified no material issues with the valuation. Each income stream had a basis with varying levels of judgement applied.
- We have also reviewed and challenged the sensitivity analysis prepared by management and note that the while the provision currently sits within the range determined by this, there is a range of uncertainty of £199m - £223m.
- We additionally performed shadow calculations which varied both the timespan and the discount rate adopted. This indicated a possible range of £199m - £212m.
- We note that the provision recognised of £200m falls within each of these ranges.
- We note that the provision is an estimate and is highly dependent on future actions and business plans. We also note steps planned in 2019/20 and beyond to improve the financial outlook of E20 that are not currently reflected in the plan. Future actions could improve the financial outlook, which would result in a reduction to the level of provision required in future accounting periods.
- We therefore conclude 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.

# 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 assets 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 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 50% 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.

### What are our conclusions?

We challenged the assumptions underpinning the valuation and are satisfied that the current levels of affordable housing that are reflected in the valuation (where relevant) are in line with the Mayor of London's policy on affordable housing as set out in the draft London Plan, for which the statutory consultation and approval process is nearing completion

Our testing of key inputs into the asset valuations back to source documentation has not identified any issues.

Our internal specialist reviewed residual appraisals that supported the valuation of three development zones in the Queen Elizabeth Olympic Park, as well as Here East where the valuation is underpinned by a complex contract. Our specialist also reviewed residual appraisals in relation to four sites owned by GLA Land and Property.

Our specialist concluded that the valuation methodology was consistent with UK valuation practice given the characteristics of the assets being measured.

We note that the valuations are highly dependent on the development frameworks being able to accommodate the current proposals in relation to the levels of affordable housing required. We would expect viability to be assessed by the Group in greater detail as time progresses, and for any impact to be reflected in future valuations.

# 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.

Key Audit Matter | Significant 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 £5.8 billion, 61% of assets are level 1 (derived from quoted prices in active markets); 21% are level 2, and 18% 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.

We are satisfied that the Group have correctly reflected the IAS 19 entries provided by their actuary in the financial statements We are also satisfied that the actuaries are appropriately qualified.

This year, there has been an ongoing national issue which may mean that a late change is required to the Group's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". Officers asked their actuary to update their estimate of net pension scheme liability taking into account the McCloud ruling and any difference between actual and estimated return on pension scheme assets and the financial statements have been updated to reflect the movement in the net pension liability.

The change was not material but resulted in an increase to the net pension liability.

# 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. During 2016/17, the Policing and Crime Act received royal assent. Under this Act, the Government brought fire and rescue services in London under the direct responsibility of the Mayor of London by abolishing the London Fire and Emergency Planning Authority (LFEPA) and creating the London Fire Commissioner as a corporation sole from 1 April 2018. The Authority has needed to assess whether or not it now controls the corporation sole.

A further change within the GLA group was the acquisition of London Treasury Limited and Greater London Investment Fund Limited, both during 2018/19.

Significant Risk

Further changes arose during the year from E20 Stadium LLP's restructuring plans, with its acquisition of London Stadium 185.

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 London Fire Commissioner we have considered whether the change in governance arrangements means that the Mayor now controls the London Fire Commissioner.

For London Stadium 185, we have considered the risk of material error to the Greater London Authority group for the period of the year from its point of acquisition. We have concluded that due to the overall balances in London Stadium 185 and the date of acquisition, the likelihood of material misstatement is low.

### What did we do?

We have considered and challenged management's accounting paper in relation to London Fire Commissioner and whether or not it should be included within the group boundary.

We have reviewed Mayoral and Director decisions, as well as meeting minutes, to look for evidence of control. We have also consulted with subject matter experts internally on the matter of control of London Fire Commissioner.

We have audited the transactions associated with the acquisition of Greater London Investment Fund and London Stadium 185 limited to ensure that they are appropriate.

### What are our conclusions?

Management has assessed that up to 31 March 2019, there were no indications that the Group had full control over the London Fire Commissioner. It has, however, consolidated Greater London investment Fund Limited and London Stadium 185 as subsidiaries. On the grounds of materiality, it has opted not to consolidate London Treasury Limited. We agree with management's conclusions regarding the group boundary.

We have identified no significant errors in the consolidation.

# Significant risk

## Incorrect classification of capital spend

### What is the risk?

Practice note 10 issued by the Financial Reporting Council, states that auditors should consider the risk that material misstatements may occur by the manipulation of expenditure recognition. The potential for the incorrect classification of capital spend as revenue is a particular area where there is a risk of management override at GLA Group due to the material expenditure incurred on supporting housing developments in the capital through both the Greater London Authority as grant expenditure (financed by capital), and its financing of the functional bodies.

Significant Risk

### What judgements are we focused on?

Revenue expenditure funded from capital under statue (REFCUS) represents a significant area of expenditure for the Authority (£1.4 billion). 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?

- Our testing was focussed on REFCUS;
- We tested for appropriate classification, challenging particularly where the classification was based on judgement;
- Understood variances in revenue expenditure and capital expenditure recognised against forecasts; and
- Confirmed that there were no accounting estimates made by management relating to the apportionment of expenditure between revenue and capital for evidence of bias.

### What are our conclusions?

Our testing of revenue expenditure financed from capital under statute identified no amendments for the Greater London Authority.

At a group level, we did identify audit adjustments. however these had the effect of increasing revenue expenditure and reducing capital expenditure (i.e. increasing the level of expenditure financed from revenue resources and reducing the level of expenditure financed from capital resources).

We have considered the root causes of these misstatements and are satisfied that it is not indicative of intentional misstatement.

# Areas of Audit Focus

## Other matters

Going concern

In our March 2019 Audit Plan, we noted that during 2018, TfL and the Department for Transport had commissioned an independent review of Crossrail's finance and commercial position. As at March 2019 it was estimated that the impact of the delayed opening of Elizabeth Line could be up to £2.2 billion. The Department for Transport provided provide a loan of up to £1.3 billion to the GLA, which the GLA expected to repay via Business Rate Supplement and Mayoral Community Infrastructure Levy (MCIL

We note that the GLA secured secondary legislation approval from Parliament to use Mayoral Community Infrastructure Levy to finance additional contributions.

The GLA has also modelled the impact of the loan from the Department of Transport and the receipt of Mayoral Community Infrastructure Levy to forecast when the loan will be repaid. This has been appropriately disclosed in the financial statements.

Misstatements due to fraud or error

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 prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

This is a risk that we recognise on all engagements. Our overall response to this for the Group was:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes for safeguarding against fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risk may manifest themselves and identified separate fraud risks as discussed above.

Our journal testing and other procedures are complete and we have not identified any issues.

# Areas of Audit Focus

## Other matters

IFRS 16 - Leases

IFRS 16 leaves accounting requirements for lessors largely unchanged with two exceptions: the classification of sub leases and sale and leaseback accounting. For lessees there will be a substantial change in accounting requirements. The current distinction between operating and finance leases will be removed. Instead it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. The changes will have a substantial impact for any local authority with material operating finance leases and will also impact capital financing arrangements.

Although the changes are not applicable for the 2018/19 financial year, local government clients are still expected to perform a number of IFRS 16 preparation steps in advance of the changes.

The Group holds material operating leases, with total value of minimum lease payments over the life of the leases per the financial statements of £110m and total future minimum lease receivables of £457m. This standard will therefore have a material impact on the financial statements when implemented.

Due to the deferral of the changes to 2020/21, the Group has not yet undertaken substantive work in relation to the implementation of IFRS 16.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below.

- The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework), the main elements being (19/20 Code Cpt 2.1 refers);
  – new definitions of assets, liabilities, income and expenses
  – updates for the inclusion of the recognition process and criteria and new provisions on derecognition
  – enhanced guidance on measurement bases
- Guidance in the treatment of the Apprenticeship Levy (19/20 Code Cpt 2.11 refers)
- Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (19/20 Code Cpt 2.11 refers)
- Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (19/20 Code Cpt 9 refers)

# 03 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 2019 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 54,
- Fund Account,
- Business Rates Supplement Revenue Account; and
- related note 55

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 2018/19.

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 2019 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 2018/19.

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.

# 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 about 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 | • Business rates appeals provision<br>• E20 onerous contract provision<br>• Property valuation<br>• Pension liability valuation |
| Materiality | • Overall group materiality of £56m 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.

# Draft audit report

## Our opinion on the financial statements (cont.)

| Business Rates Appeal Provision | | Key observations communicated to the Mayor |
|---|---|---|
| Risk | Our response to the risk | |
| Significant changes in the arrangements for the distribution of business rates were made by the Government in April 2013 following the introduction of the 50% local rates retention scheme. As a result there was a requirement for individual authorities to make provision for potential refunds to ratepayers arising from successful appeals against their property valuations.<br>Appeals are made to the Valuation Office (VOA), and authorities are required to make judgements on the likelihood of appeals being successful and the financial impact of those appeals. Authorities may therefore find it difficult to obtain sufficient information to establish a reliable estimate as they are ultimately subject to the decisions and actions of third parties. The Greater London Authority (GLA) relies on information from the London Billing Authorities to determine its accounting entries. 2018/19 is the first year that NDR pooling has been in place across London, administered by the City of London. The GLA will receive 36% of all business rates income in London and also record the same share of provisions, debtors and creditors on its balance sheet. Two other changes that took place in 2017/18 remain relevant to the level of risk associated:<br>• 2017/18 saw the introduction of a new three stage approach to business rates appeals – Check, Challenge, Appeal. This revised process has made the assessment of both the number and value of successful appeals not yet lodged more difficult.<br>• The earlier deadline for the production and approval of financial statements introduced by the Accounts and Audit Regulations 2015 requires the GLA to receive information on closing collection fund balances earlier from the London Billing Authorities.<br>The provision figure is judgemental, and errors in the underlying data or judgements made by billing Authorities could result in material error in the GLA financial statements.<br><br>For this reason, we consider that the appeals provision represents risk of material error.<br><br>Refer to notes 5 and 41 in the statement of accounts. | We addressed our risk through substantive testing:<br>• 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.<br>• 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.<br>• For a sample of billing Authorities, we also obtained direct assurance from the London Billing Authorities either by performing work on their calculations to assess for reasonableness or making inquiries of their auditors. We paid particular attention 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.<br>• 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.<br>• We assessed the differences in approaches across London Boroughs to assess whether any systemic bias could occur.<br>• 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. | The appeals provision estimate falls within an acceptable range overall, and the uncertainties associated with determining the value of the provision have been appropriately disclosed within the financial statements. |

# 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 |
|---|---|---|
| When the London 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.<br>A material provision has therefore been recognised. This provision is updated annually based on judgements made by management in the E20 ten year business plan. In 2018/19, this will necessarily reflect progress made against the LLP's restructuring plans and any future plans.<br>As a material, judgemental balance, the provision is susceptible to misstatement.<br><br>Refer to notes 5 and 41 in the statement of accounts. | We addressed our risk through substantive testing:<br>• We reviewed the inputs into the provision calculation which were the E20 Stadium LLP 5 year business plan and the discount rate applied.<br>• We tested assumed income within the business plan back to source documentation.<br>• We identified and challenged key judgements within the plan.<br>• We also ensured that we understood the reason for the movement in the business plan as compared to the 2017/18 version.<br><br>We performed our own calculations of the provision varying the assumptions to assess the key sensitivities in the model. | 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. |

# Draft audit report

## Our opinion on the financial statements (cont.)

### Property valuation

| Risk | Our response to the risk | Key observations communicated to the Mayor |
|---|---|---|
| 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.<br><br>The level of affordable housing to be provided is a key assumption within the valuations, and is currently uncertain.<br><br>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.<br><br>Key assumptions lead to a high degree of judgement in order to value these assets.<br><br>Refer to notes 5, 26 and 37 in the statement of accounts. | The following procedures were performed as part of our substantive testing:<br>• We met with GLA Group's external valuers and discussed the methodology applied and key assumptions used.<br>• 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.<br>• We reperformed valuation calculations for a sample of assets, verifying key inputs against source documents as part of this process.<br>• We used our internal valuation experts to assist in our review of whether the Group's key assumptions in relation to residual appraisals performed are within an acceptable range based on comparative market data for build costs.<br>• We tested that property additions and disposals had taken place in the year, and that the valuation had been appropriately updated for them.<br>• We obtained management representation as to the validity of the planned affordable housing assumptions with respect to key sites. | We have concluded that property valuations are within an acceptable range, and that the assumptions and associated uncertainties are appropriate and appropriately disclosed. |

# 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 |
|---|---|---|
| The Group's current pension fund deficit is a material item (£164 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.<br>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 82% 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.<br>The Code requires the Group to disclose this liability on the Group's Balance Sheet.<br>The information disclosed is based on the IAS 19 report issued by the actuaries to the administering body, the London Pensions Fund Authority.<br>Refer to note 21 in the statement of accounts. | The following procedures were performed as part of our substantive testing:<br>We used our pension experts to assist in our review of whether management's assumptions are within an acceptable range.<br>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.<br>We have understood the composition of the pension fund assets, of which the GLA Group has a combined share of less than 6%.<br>We noted that of the total reported fund value of £5.8 billion, 61% of assets are level 1 (derived from quoted prices in active markets); 21% are level 2, and 18% are level 3 which require the greatest degree of judgement.<br>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.<br>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.<br>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.<br>We have audited the disclosure of the deficit and assumptions in the financial statements to ensure that it complies with disclosure requirements.<br>We have identified the impact of the McCloud/Sargent ruling on these valuations and confirmed that they are not material to the Group. We have audited the resulting adjustment and confirmed that it is appropriately reflected in the financial statements. | 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. |

# 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 ten reporting components of the Group, we selected eight 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 two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining six 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 £56 million (2018: £49 million), which is 1% (2018: 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% (2018: 75%) of our planning materiality, namely £42 million (2018: £39 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.

# 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 £2.8 million (2018: £2.5 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 Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, the 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 2019.

# Draft audit report

## Our opinion on the financial statements (cont.)

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

Responsibility of Executive Director of Resources

As explained more fully in the Statement of the Executive Director of Resources' Responsibilities set out on page 12, 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 2018/19, 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.

# Draft audit report

## Our opinion on the financial statements (cont.)

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 2019.

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.

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.


# 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” 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.

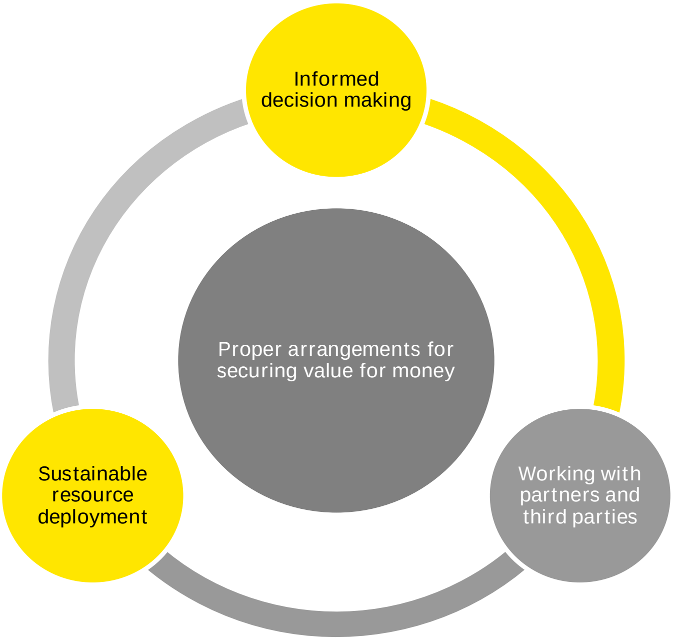
## Summary of adjusted differences

We highlight misstatements greater than £42 million which have been corrected by management that were identified during the course of our audit. There are no corrected misstatements above that level, and no disclosure amendments that we consider sufficiently significant to bring to your attention.

There were no uncorrected misstatements.

# 05 Value for Money Risks

# Value for Money




## 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 2018/19 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? |
| --- | --- | --- |
| Governance and financing challenges associated with the GLA group bodies<br><br>East Bank (formerly known as The Cultural and Education District) is the most significant project which the London Legacy Development Corporation (LLDC) has undertaken to date in scale. 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.<br>Its main objective is the continued development of the Queen Elizabeth Olympic Park and the securing of the Olympic legacy. The project has a highly significant funding requirement and a number of complex agreements with both cultural and educational organisations. During 2018/19, LLDC has entered into a number of contracts related to the project through a procurement exercise. The involvement of multiple partners and scale of the project expose the Corporation and therefore the GLA to reputational and financial risk, since the GLA is required to underwrite the cost of the project. The GLA will need to make sure that the Corporation's processes for managing risk and monitoring delivery are robust.<br><br>The Corporation's financial obligations, including in relation to the Stadium, the impact of the East Bank project and the Corporation's requirement to contribute to the Mayor's affordable housing priorities are reflected within its long-term financial model which is updated annually. This year it will need to be consistent with the Corporation's Capital Strategy. 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.<br><br>The GLA is exposed to shortfalls in the budgets of its functional bodies, and there is a risk that its long term model will not keep pace with additional borrowing and financing requirements that are identified – for example, in relation to the additional costs required to complete Crossrail and the resulting increased GLA borrowing requirement.<br><br>Finally, the establishment of the London Fire Commissioner as a corporation sole required the Authority to put in place governance arrangements during 2017/18. These arrangements will need to be assessed to ensure that they remain fit for purpose. | Take informed decisions<br><br>Deploy resources in a sustainable manner<br><br>Work with partners and other third parties | In our report last year we noted 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. At that time there was still an element of risk in relation to one partner, however, this has now been resolved and an agreement signed in December 2018.<br>In relation to E20, continued financing has been contingent upon progress being made in its restructuring plan which was agreed in May 2018. Progress during 2018/19 has included the acquisition of London Stadium 185, which has provided greater transparency over costs and the opportunity to influence cost control. Progress has also been made on agreeing changes to the UK Athletics contract, and this process continues into 2019/20. We have seen evidence of the GLA's involvement in each of these key steps, as well as its scrutiny of LLDC and the Stadium through its Budget Monitoring Sub-Committee.<br>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.<br>Long term financing and funding requirements are being modelled by the GLA, however, the Corporation's model has not yet been finalised and approved by its Board, and this will inform the GLA's modelling. The overall level of funding required by the Corporation therefore remains unknown, however, the medium term requirement has been updated and is reflected in the GLA model.<br>In relation to Crossrail, we note that the GLA secured secondary legislation approval from Parliament to use Mayoral Community Infrastructure Levy to finance additional contributions committed during the year.<br>The governance arrangements in relation to London Fire Commissioner have operated effectively during the year.<br><br>We therefore have no matters to report. |

# Other matters to bring to your attention

| Looking forward |
| --- |
| The GLA continue to be reliant to a certain extent on their functional bodies to support its own long-term planning. The Authority has appropriately reflected commitments relating to Crossrail, London Legacy Development Corporation and the Stadium in its medium term plan.<br>In 2019/20, we will continue to focus on the GLA's commitments in relation to its functional bodies, mayoral development corporations and E20 Stadium LLP as we note that there are a number of long-standing liabilities that could place a burden on funding.<br>For 2019/20, this will include the GLA's governance of Old Oak and Park Royal Development Corporation (OPDC) as it responds to its award of Housing Infrastructure Funding. |

# 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 2018/19 with the audited financial statements<br><br>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.<br><br>Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.<br><br>We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and 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.<br><br>We will conclude our work in this area in advance of the September 2019 reporting deadline and will report any matters arising to you. |

# 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

We have no 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.

Last year we noted that in a number of instances it had 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 recommended that an audit trail is retained to support officers in their assessment of the appropriateness of valuations. This year we noted significant improvement in this area.

# 08 Data Analytics

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

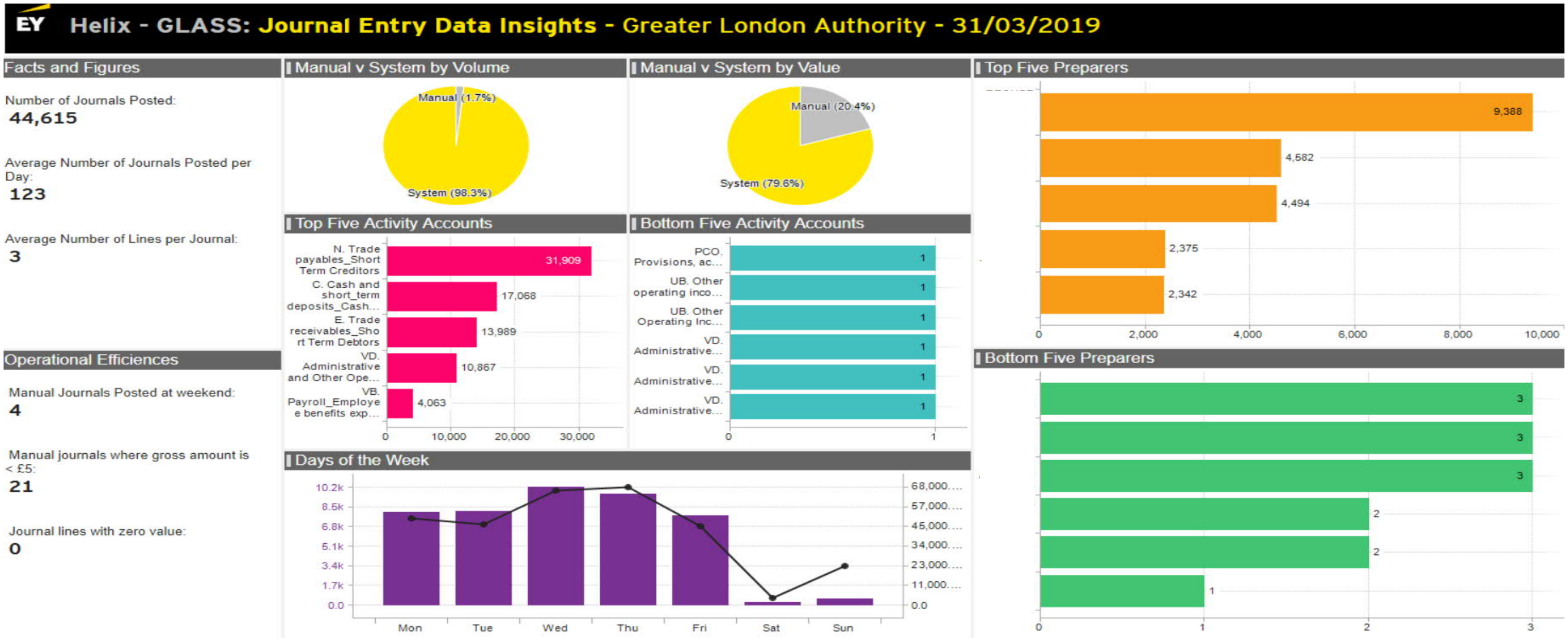
Payroll Analysis
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the general ledger. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



# Journal Entry Testing

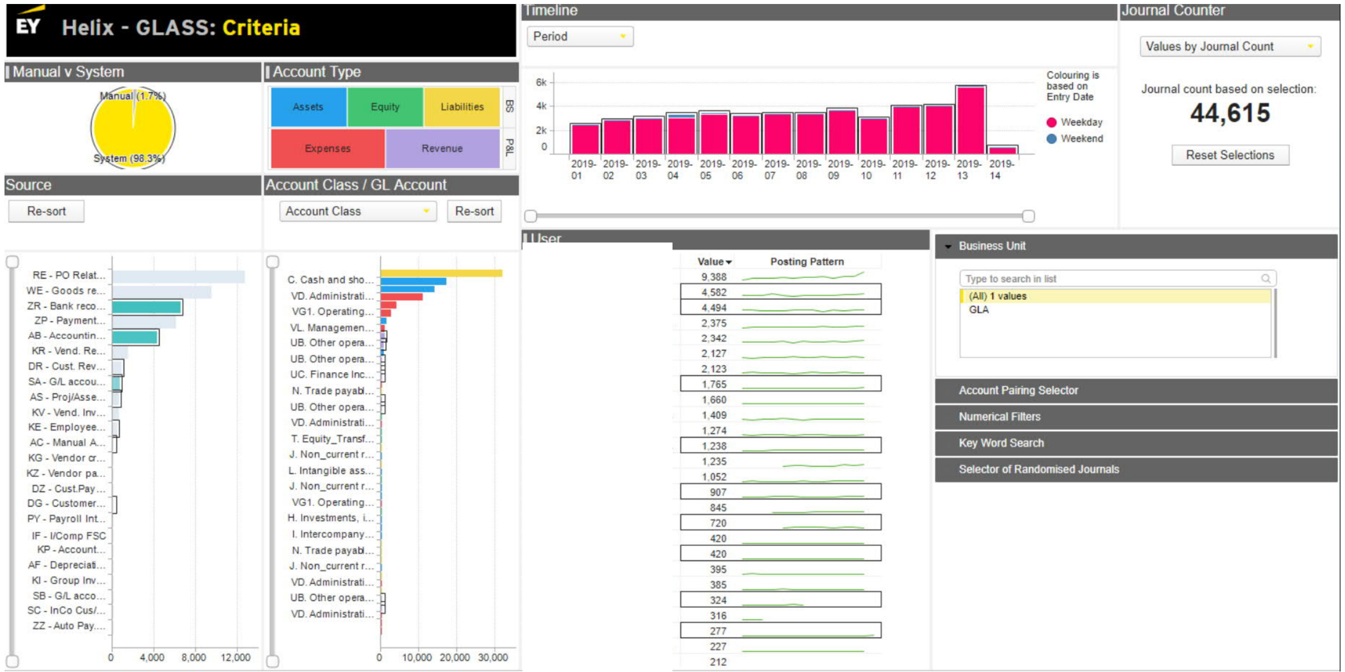
## What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

## What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2019




## What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

## What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

# 09 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment for the Greater London Authority and the Terms and Conditions of our appointment contained within the Engagement Letter for Greater London Authority Holdings and GLA Land and Property. 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 no non-audit work outside the NAO Code requirements.

# 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 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

# Fee analysis

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 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.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements

| | Final Fee 2018/19 | Planned Fee 2018/19 | Scale Fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Total GLA audit fee | TBC` | 109,500 | 109,500 | 124,100[1] |
| Total Greater London Authority Holdings audit fee | 112,000 | 112,000 | N/A | 125,439[1] |
| Total London Treasury Limited audit fee | TBC[2] | TBC[2] | N/A | N/A |
| Total non-audit services | N/A | N/A | N/A | 10,000 [3] |
| Total Fees | TBC | 231,500 | 109,500 | 223,800 |

1. In 2017/18, the final fees reflected work undertaken in response to the significant risks reported: change in group scope, change in NDR appeals process, testing of property valuations and testing of pension asset valuations. We anticipate a variation for 2018/19 in relation to the group scope, NDR appeals provision testing and testing of property valuations, subject to discussion and agreement with management and Public Sector Audit Appointments.

2. The fee for London Treasury Limited will include the requirement for reporting to the FCA and will be determined when the scope of this reporting becomes clearer.

3. In 2017/18, non-audit services related to work on the group boundary assessment, which was carried out by a separate team.

# 11 Appendices

# Appendix A

## Audit approach update

We confirm that our approach to the audit of the balance sheet has been fully substantive, which is the same approach adopted in the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

# Appendix B

## Summary of communications

| Date | Nature | Summary |
|---|---|---|
| 11 Sep 2018 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss the prior year audit. |
| 9 Nov 2018 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to commence planning for 2018/19. |
| 17 Dec 2018 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update and discuss our preliminary risk assessment for the 2018/19 engagement. |
| 15 Jan 2019 | Meeting | The audit planning report, including confirmation of independence, was presented to the Audit Panel. |
| 12 Mar 2019 | Report | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update. |
| 12 Jun 2019 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update. |
| 17 Jul 2019 | Meeting | The manager attended the Audit Panel and provided a verbal update on audit status. |
| 18 Jul 2019 | Meeting | Audit close meeting with the management team to discuss the preliminary findings of the audit. |
| August 2019 | Report | The audit results report, including confirmation of independence, was issued to the Mayor. |

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

# Appendix C

## 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.<br><br>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 – January 2019 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report – January 2019 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit results report – July 2019 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Public Interest Entities | For the audits of financial statements of public interest entities our written communications to those charged with governance include:<br>• A declaration of independence<br>• The identity of each key audit partner<br>• The use of non-member firms or external specialists and confirmation of their independence<br>• The nature and frequency of communications<br>• A description of the scope and timing of the audit<br>• 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<br>• Materiality<br>• Any going concern issues identified<br>• Any significant deficiencies in internal control identified and whether they have been resolved by management<br>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to those charged with governance<br>• 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<br>• The valuation methods used and any changes to these including first year audits<br>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework<br>• The identification of any non-EY component teams used in the group audit<br>• The completeness of documentation and explanations received<br>• Any significant difficulties encountered in the course of the audit<br>• Any significant matters discussed with management<br>• Any other matters considered significant | Audit planning report – January 2019<br>and<br>Audit results report – July 2019 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | No conditions or events were identified, either individually or together to raise any doubt about the Greater London Authority Group's ability to continue for the 12 months from the date of our report |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit results report – July 2019 |
| Subsequent events | • Enquiry of those charged with governance where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | |
| Fraud | • Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to those charged with governance responsibility. | Audit results report – July 2019 |

# Appendix C

| | | 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:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Authority | Audit results report – July 2019 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:<br>• Relationships between EY, the company and senior management, its affiliates and its connected parties<br>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>• Related safeguards<br>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit planning report – January 2019<br>and<br>Audit results report – July 2019 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| | • 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<br>• Details of any contingent fee arrangements for non-audit services<br>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>• Those charged with governance should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations. |
| Consideration of laws and regulations | • 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<br>• 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 those charged with governance 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 | • Significant deficiencies in internal controls identified during the audit. | Audit results report – July 2019 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Group Audits | • An overview of the type of work to be performed on the financial information of the components<br>• 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<br>• 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<br>• Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>• 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 – January 2019 |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit results report – July 2019 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report – July 2019 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit results report – July 2019 |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit Planning Report – January 2019<br>Audit Results Report – July 2019 |

# Management representation letter

## GLA Group Management Representation Letter

[To be prepared on the entity's letterhead]
29 July 2019

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 ("the Group and Authority") for the year ended 31 March 2019. 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 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Authority the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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 Group and Authority the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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 and Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 consolidated and Authority financial statements are appropriately described in the consolidated 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 2018/19 that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

1. We acknowledge that we are responsible for determining that the Group and Authority's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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.
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.

# Management representation letter

## GLA Group Management Representation Letter (cont.)

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Authority (regardless of the source or form and including, without limitation, 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's 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's 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: 24 July 2019.
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 litigation and claims, both actual and contingent, and have disclosed in Note 51 to the consolidated and Authority financial statements all guarantees that we have given to third parties.

E. Subsequent events

1. As described in Note 54 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 Authority, subsidiary undertakings and associated 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 2018/19.
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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
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. Although the revised London Plan is still to be formally adopted, the statutory consultation and approval process is nearing completion, as such, the current property valuations take into account the increased amounts of affordable housing allocations in the draft London Plan 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. Environmental liabilities

1. 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.)

L. 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 it 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.

M. Reserves

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

N. 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.

O. 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.

P. 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.

Q. 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.

R. 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 five-year business plan 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.)

S. 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.

____________________

Martin Clarke
Executive Director - Resources

____________________

Sadiq Khan
Mayor of London

EY | Assurance | Tax | Transactions | Advisory