



Greater London Authority
Group
Audit results report

Year ended 31 March 2017



EY

Building a better
working world

Private and Confidential

September 2017

Dear Mayor

We have substantially completed our audit of the Greater London Authority Group (the Authority and Group) for the year ended 31 March 2017.

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 in Section 3 before the statutory deadline of 30 September 2017. 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Karl Havers

Partner

For and on behalf of Ernst & Young LLP

United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Mayor, Directors of Greater London Authority Holdings and GLA Land and Property, the Audit Panel, other members of the Authority, and senior management in accordance with the statement of responsibilities and our engagement letter dated 1 March 2017. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of Greater London Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Mayor and Directors, other members of the Authority and management of Greater London Authority for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 28 March 2017 Audit Panel, we gave an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan, with the following changes:

- In our Audit Plan we stated that we intended to place reliance on both IT and manual controls for accounts payable and accounts receivable processes. As part of our interim procedures, we assessed whether it would be more efficient to instead continue with a fully substantive approach. We determined that a fully substantive approach would be more efficient. We did, however, use our IT team to audit the IT controls at Transport for London (who host some of the Greater London Authority's IT systems).
- During the course of our audit changes were made to the design of the Cultural and Education District and to the business plan for E20 Stadium LLP, which reduced expected future receipts. Both the Cultural and Education District and E20 Stadium LLP are funded in part by the London Legacy Development Corporation, which in turn receives funding from the Greater London Authority. We therefore considered the recoverability of loans made to the London Legacy Development Corporation in light of the reduced anticipated receipts from these two areas. Our findings are reported in section 2.
- Our Audit Plan included a risk concerning the impact of the valuation of the London Stadium in the group financial statements. We also noted in the Plan that E20 Stadium LLP would need to consider the profitability of its contracts. Following the completion of the transformation of the Stadium, the value of the Stadium has been impaired to nil based on the onerous nature of the contracts associated with it. The risk identified in our Plan is therefore now limited to the valuation of the onerous contract provision, which has a material impact on the GLA group accounts through the consolidation of London Legacy Development Corporation Group.

We planned our procedures using a materiality of £30.8 million for the Greater London Authority Group. We reassessed this using the actual year-end figures and as a result our materiality has increased to £32.1 million. The threshold for reporting audit differences has increased from £1.4 million to £1.6 million. The basis of our assessment of materiality has remained consistent with prior years at 1% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: We tested remuneration disclosures back to payslips. We agreed exit packages to supporting evidence, including termination agreements where relevant.
- Related party transactions: We have audited declarations of interest forms and checked for transactions with known related parties. We have also tested completeness of these declarations using Companies House and our knowledge of the Authority and Companies.



Executive Summary

Executive summary (continued)

Status of the audit

We have substantially completed our audit of Greater London Authority (GLA) Group's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit Plan. Further information on this is included in section 2. 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:

- Receipt and review of the signed financial statements and management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion. The draft opinion for GLA Group is at section 3.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Greater London Authority Group financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. They include:

- LLDC and E20 funding issues, including recoverability of loans to LLDC
- 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 and the treatment of E20 Stadium LLP as a joint venture of London Legacy Development Corporation

We summarise our consideration of these matters, and any others identified, in section 2 of this report 'Areas of Audit Focus' on pages 11 to 18.



Executive Summary

Executive summary (continued)

Areas of audit focus (cont.)

There are some significant issues and judgements in relation to these key areas of focus. We therefore 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 issues
- 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.

Audit differences

We identified one audit difference in the draft GLA financial statements which management has chosen not to adjust, relating to the over accrual of income.

We agree with management's assessment that the impact is not material. We ask that it be corrected or a rationale as to why they are not corrected be approved by the Mayor and included in the Letter of Representations.

To date there have been no material corrected audit differences to the GLA Group financial statements.

Further detail can be found in Section 4 Audit Differences.



Executive Summary

Executive summary (continued)

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 Plan we identified one significant risk which concerned governance of the London Legacy Development Corporation's (the Corporation) key projects.

During the year, we have revisited our risk assessment to take into account developments during the period of the audit. As a result, we have expanded this risk to consider the funding of the Corporation's financial obligations in relation to the operation of the London Stadium, and the level of uncertainty regarding the range of future funding the Corporation needs to provide for the operation of the Stadium. We note that the Mayor of London has announced an investigation into the finances of the Stadium, which at the time of this report, is still ongoing. We have considered the GLA's role in overseeing the Corporation's response to this risk and to securing financial sustainability.

Our findings are detailed in section 5.

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

Other reporting issues

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

We are in the process of completing the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. To date we have no issues to report.

We have no other matters to report.



Executive Summary

Executive summary (continued)

Control observations

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

Some of the GLA's IT systems are hosted by Transport for London (TFL). Our audit of IT controls at TFL identified a number of access and control points which apply equally to Greater London Authority but are not considered to be significant deficiencies. We have communicated these to management for information.

Independence

Please refer to Appendix B for our update on Independence. There are no issues to bring to your attention.



02 Areas of Audit Focus





Areas of Audit Focus

Audit issues and approach: LLDC and E20 funding issues

Consequences of LLDC and E20 Funding issues

Matters arising since the issue of our Audit Plan related to LLDC and E20 funding

Capital loans to third parties

This was identified as an area of focus after the issue of our Audit Plan. We audited the Authority's assessment of the recoverability of their capital loans to third parties (£649 million), particularly for London Legacy Development Corporation (LLDC) in the light of changes to anticipated future receipts relating to the Cultural and Education District and E20 Stadium LLP. The loan is anticipated to be recovered through capital receipts. The Authority's assessment of recoverability has taken into consideration the latest long-term forecast produced by LLDC. Based on current forecasts, which take into account the changes noted above, the existing borrowing remains recoverable. There are, however, factors which could alter the LLDCs anticipated capital receipts. These include:

- E20 Stadium LLPs financial position and the impact on future support required
- Increased and accelerated provision of affordable housing in LLDC's residential schemes
- The design of the Cultural and Education District
- Corporation tax

The GLA and LLDC are both required to comply with the Prudential Code which specifies that borrowing must be affordable, prudent and sustainable. They are modelling various options to ensure that future capital plans result in sufficient receipts to repay the loan.

Funding Requirements

As noted above, LLDC's future commitments in relation to the ongoing operation of the Stadium are uncertain. LLDC is party to two of the LLP's key contracts. As a result of uncertainties in the arrangements between the Members of E20 in relation to future funding, as well as historic contractual arrangements which occurred before the current accounting period, there is a potential gap in LLDC's future funding to ensure it will be able to meet its commitments. It is not yet possible to fully quantify this gap and therefore any resulting impact on GLA funding of LLDC.

As the ultimate funder of LLDC, the Greater London Authority is exposed to the financial risks arising from the Stadium and to some extent E20 LLP, as well as any funding shortfalls arising from changes to LLDC's residential schemes. Additionally, the GLA is a funder to the Cultural Education District, the scope of which has not yet been finalised.

This is important context for the consideration of the level of reserves held by the Authority and we have therefore asked that further disclosure of this is included in the Narrative Statement.

Relationship of E20 to the rest of the Group

Since its creation, E20 Stadium LLP has been considered to be a joint venture of LLDC. The Authority has considered whether or not the funding, risks and rewards would indicate that it now represents a subsidiary of the Greater London Authority. It has concluded that during 2016/17, it did not indirectly or directly direct the activities of the LLP. We have agreed with this judgement, however, the Authority will need to make this assessment again for 2017/18 in light of the changing circumstances of the LLP.



Areas of Audit Focus

Audit issues and approach: Revenue and expenditure recognition

Fraud in revenue and expenditure recognition

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

What is the risk?

Risk of fraud in revenue and expenditure recognition Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

 Significant Risk

What did we do?

To address this risk we considered the nature of income and expenditure recognised by Greater London Authority Group.

For Greater London Authority single entity, we assessed the level of risk against each significant income and expenditure stream. GLA capital expenditure is immaterial, and therefore there is no material risk that this is over-stated. GLA income comes from grants, taxation and interest receipts. Each of these sources are easily predicted and verified, and therefore we rebutted the risk of inappropriate recognition in these streams.

We noted that for London Legacy Development Corporation (LLDC), a significant component of the group, there would be an incentive to treat capital expenditure as revenue expenditure due to the nature of GLA funding arrangements which requires LLDC to repay capital loans. We placed reliance on the audit work performed at LLDC which found no material issues either in the classification of revenue expenditure or the recognition of its significant income streams.

The significant income streams in GLAP are:

- Income from property disposals
- Rental and other property income from investment properties
- Overage
- Contributions from developers

We applied a higher level of testing to these income streams and also tested cut-off. We identified no material issues.



Areas of Audit Focus

Audit issues and approach: Management override

Management override of controls

What are our conclusions?


Based on the work we have completed to date, we have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

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

What is the risk?

Risk of management override of controls
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

 Significant Risk

What did we do?

Our testing of journal entries has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

The most significant accounting estimates in the financial statements relate to the net pension liability, property valuations and the business rates appeal provision. We have undertaken the following procedures in relation to these areas:

- We audited the method of determining the appeals provision, and ensured that there was a justification for significant movements through liaison with London Borough external auditors.
- We assessed the independence and competence of management's experts in relation to property valuations and the determination of the pension liability. We concluded that experts were appropriately qualified and sufficiently independent from the Authority.

Our work on the appeals provision is still in progress, and cannot be completed until we have received the outstanding information from the auditors of a number of London boroughs. However, our work to date has found no indication of management bias in these estimates.



Areas of Audit Focus

Audit issues and approach: Pension valuations

Pension valuations

What are our conclusions?

The assumptions employed by the actuary are overall within an acceptable range.

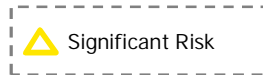
The methodologies used to derive the discount rate and RPI inflation assumptions should be revisited in future years to avoid the potential for material misstatement in the value of the pension liability.

What is the risk?

Risk of error in Pension Valuations

The Authority's current pension fund deficit is a highly material and sensitive item. Small changes in assumptions when valuing these assets can have a material impact on the financial statements. The Code requires the Authority to disclose this liability on the Authority'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 did we do?

We liaised with the auditors of the London Pensions Fund Authority, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Greater London Authority. They reported to us that no exceptions were noted in their testing concerning the accuracy and completeness of data supplied to the actuary (Barnet Waddingham).

We performed procedures which enabled us to place reliance on Barnet Waddingham as management's expert which included assessing their independence and objectivity, understanding their methods and assessing their methods with the support of our own specialists.

For Barnet Waddingham, discount rates and RPI inflation assumptions fall outside the range expected by our experts. We have concluded that the RPI assumption of 3.6% per annum is slightly prudent. However, since the impact of the discount rate assumption has the opposite effect, we are satisfied that the overall basis is appropriate.

We also noted that the methodologies used to derive the discount rate and RPI inflation assumptions do not take adequate account of the specific duration of the scheme's liabilities. In future years, this could lead to unacceptable assumptions. We have performed sufficient work to conclude that this does not present a material issue for 2016/17. The Authority will need to consider the impact of this approach on their liability in future years to satisfy themselves that the net pension liability is not materially misstated.

We tested the accounting entries made within the Authority's financial statements in relation to IAS 19 and noted no issues.



Areas of Audit Focus

Audit issues and approach: Property valuations within LLDC and GLAP

Property valuations

What are our conclusions?

Our work has found that the Authority has appropriately reflected the findings of the valuer in their financial statements and we are able to rely on the valuers as management experts.

What is the risk?

Risk of error in Property valuations

The GLA Group Balance Sheet contains property assets which are highly material in nature. In addition, the unique and material nature of LLDC's Olympic Park non-current assets and the basis on which they are valued, mean that small changes in assumptions when valuing these assets can have a material impact on the financial statements.

A similar issue arises 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.

 Significant Risk

What did we do?

We have assessed the Group property balance and focused our testing on the elements which we have determined carry the most risk of material error.

The valuation of the Queen Elizabeth Olympic Park is significant to the balance and reduced significantly this year. We have engaged our internal expert to assess the appropriateness of the methodology applied by the valuer. Our valuation expert has concluded that the methodology applied is reasonable.

The valuation of Crystal Palace National Sports Centre is material to GLAP although not to the GLA Group. We have considered the reasonableness of the valuation, noting that it has not moved materially from the prior year. We have also considered the appropriateness of the valuation basis and concluded that the Depreciated Replacement Cost method is appropriate.

Another significant movement was in the value of Investment Property in GLAP - we have understood the reason behind the movement to ensure that it is appropriate.

We have confirmed that the valuers are members of RICS and registered valuers.

We assessed the instructions provided to the valuer against the requirements of the Code of Accounting Practice for Local Government and IAS 16 and have not identified any issues.

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



Areas of Audit Focus

Audit issues and approach: E20 Stadium LLP onerous contracts

E20 Stadium LLP onerous contracts

What are our conclusions?

We have concluded that the basis of the estimated onerous contract provision is appropriate and that the value is within a reasonable range.

The Authority has agreed to enhance their disclosure concerning the estimation uncertainty that is inherent in the consolidated loss in E20 Stadium LLP as a result of the judgements made concerning this calculation.

We will continue to assess the appropriateness of the accounting treatment and disclosure up to the date of approval of the accounts.


What is the risk?

Risk of error in E20 Stadium LLP

E20 Stadium LLP is a limited liability partnership between the London Legacy Development Corporation (LLDC) and the London Borough of Newham's subsidiary Newham Legacy Investment (NLI).

The objective of the LLP was to transform and then operate the Olympic Stadium. During 2016/17 the transformation works have been completed and the business of the LLP is now operation. The 2015/16 business plan showed an average profit across 10 years of approximately £600,000. During 2016/17, assumptions were revised based on known changes, including; the cost of transitioning the stadium from football to athletics mode; lifecycle replacement costs, anticipated income from sponsorship; other income from the venue.

Alongside this revision, E20 Stadium LLP management reviewed the profitability of its ongoing contracts in line with IAS 37 and determined that a provision was required to recognise the ongoing cost that the contracts represent to the organisation.

 Significant Risk

What did we do?

E20 Stadium LLP management has recognised the Stadium at a nil carrying value and used the valuation of the Stadium to determine the value of the onerous contract provision. The valuation is undertaken by independent valuers, based on a 10 year forecast, extrapolated, which has been produced by E20 Stadium LLP management. This has resulted in a provision of £200 million, based on an NPV calculation of the current Business Plan 10 year cash flow, with a reversion to a steady state annual deficit of approximately £14 million. The discount rate used is 3.5%.

The valuation and provision assume that E20 is a going concern, and that it will continue to receive funding from its joint venture partners. (NLI and LLDC).

We have undertaken the following procedures:

- Assessing the decision to use the valuation of the stadium as a proxy for the value of the onerous contract provision.
- Assessing the possible upsides and downsides in this forecast, as well as the known changes that have occurred since the forecast was produced.
- Auditing the sensitivity analysis performed by E20 Stadium LLP management on the valuation.

We note that the provision is highly dependant on future actions and business plans. It could therefore vary significantly from the amounts currently used. However we believe the onerous contract provision is a reasonable estimate of future losses without substantial changes to the business plan. Any substantial changes to the plan would require contractual renegotiation. Our assessment has assumed no substantial changes to the plan.

We have used updated assumptions supported by a business review commissioned by the LLP to assess the level of estimation uncertainty in the context of our materiality level and the context of the estimate itself. The range identified is £166 million to £228 million. We have concluded that the estimate is reasonable, as the extremes of those assumptions are less likely to occur.

We will also remain alert to changes in circumstances which could significantly alter this estimate up to the date of approval of the accounts and ensure any significant changes are appropriately disclosed.



Areas of Audit Focus

Audit issues and approach: Localisation of business rates and rating appeals

Localisation of business rates and rating appeals

What are our conclusions?

Our work in this area is ongoing.

Based on the work completed to date, we are satisfied that the Greater London Authority provision accurately reflects its share of the London Boroughs' provisions as reflected in their returns to the Secretary of State.

We have liaised with auditors of the London Boroughs which contribute to the bulk of the GLA's provision to assess the robustness of these calculations. We are currently awaiting some responses and will audit them when they have been received.

The Authority has made inquiries of a sample of London Boroughs with the most material provisions in order to support their assessment of the adequacy of the provision. Their assessment is incomplete as they are awaiting one response.


What is the risk?

Risk of error localisation of business rates and rating appeals

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. In 2016/17 the GLA received 20% of all business rates income in London and also records the same share of provisions and debtors and creditors on its balance sheet. Its share will increase to 37% from 1 April 2017.

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. The significance of this for GLA was reflected in the provision in 2015/16 of £186 million – reflecting its share of the total £930 million provision determined by London billing authorities.

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.

 Significant Risk

What did we do?

We have obtained the underlying information the Authority has used to calculate its share of the appeals provision, namely returns produced by the London Boroughs. Based on our work we are satisfied that the GLA share has been calculated accurately and disclosed appropriately.

The GLA provision of £176 million (15/16: £186 million) in note 41 is not analysed between new provisions made in year, and the release of unused provisions. Appropriate narrative disclosure has been included to reflect the fact that the provision movement has been disclosed net as there has not been a consistent apportionment of these numbers reported by the London Boroughs.

We have identified the London Boroughs that form the bulk of the provision and undertaken further procedures in relation to these Authorities; liaising with their auditors to understand the procedures undertaken and assurance gained.

We have made inquiries of these auditors to understand the methodology employed by each entity, and the reason for significant movements. The most significant movements in relation to the GLA's 20% share and their explanations are:

- Westminster - £29 million decrease – due to a net reduction in the number of appeals unresolved compared to 2015/16.
- City of London Corporation - £23 million increase – due to a significant increase in the number of appeals unresolved compared to 2015/16.
- Southwark - £4 million increase primarily due to the ongoing uncertainty arising from the impact of a Supreme Court ruling affecting the rating treatment of ratepayers occupying multiple floors in a building.

We have audited the detailed accounting transactions and concluded that the disclosures in the Authority's accounts are compliant with the CIPFA Code of practice.



Areas of Audit Focus

Audit issues and approach: Other Risks

Other risks

Other Risks Identified in the Audit Plan

We identified two further areas of focus in our Audit Plan, and have subsequently identified a third as noted below:

Assessment of GLA Group Boundary

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 will bring 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. The timing of the transfer of governance arrangements when we completed our planning procedures was expected to be 1 October 2017. However the timetable has been revised and this is now expected to be 1 April 2018, subject to the passing of secondary legislation. It is important that the GLA continues to revisit on an annual basis its assessment of the group boundary. 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.

We have undertaken appropriate audit procedures in relation to this area of focus and not identified any issues. We have no matters to report.

Presentation of expenditure and funding analysis statement and restatement of CIES and MiRS

New CIPFA reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

As a result of these changes, the service analysis is based on the organisational structure under which the Authority operates and shows the Authority's segmental analysis.

Our procedures have identified required amendments to the presentation of the CIES and EFA and the addition of a restated disclosure note. Management have agreed to make these amendments.



03 Audit Report



Audit Report

Draft audit report

Below is the draft opinion for the GLA Group. We will 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 on the Authority's financial statements

We have audited the financial statements of the Greater London Authority for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

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

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director of Resources and auditor

As explained more fully in the Statement of the Executive Director of Resources' Responsibilities set out on page 11, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Greater London Authority and Group as at 31 March 2017 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 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our opinion on the financial statements

Conclusion on the Greater London Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

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.

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 2016, 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 2017.

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.



Audit Report

Our opinion on the financial statements

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, 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 2017.
Certificate

We certify that we have completed the audit of the accounts of the Greater London Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Karl Havers (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
London
TBC*



04

Audit Differences



Audit Differences

Audit differences




In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 and unadjusted differences

We communicate to you corrected misstatements which we consider to be significant.

For Greater London Authority there are no adjusted audit differences which we consider to be significant either individually or in aggregate. Disclosure amendments have been required to the Narrative Statement and the presentation of the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis.

We highlight the following misstatement in the financial statements which were not corrected by management. We ask you to correct this uncorrected misstatement or give a rationale as to why it has not been corrected. This should be considered and approved by the Mayor and included in the Letter of Representation:

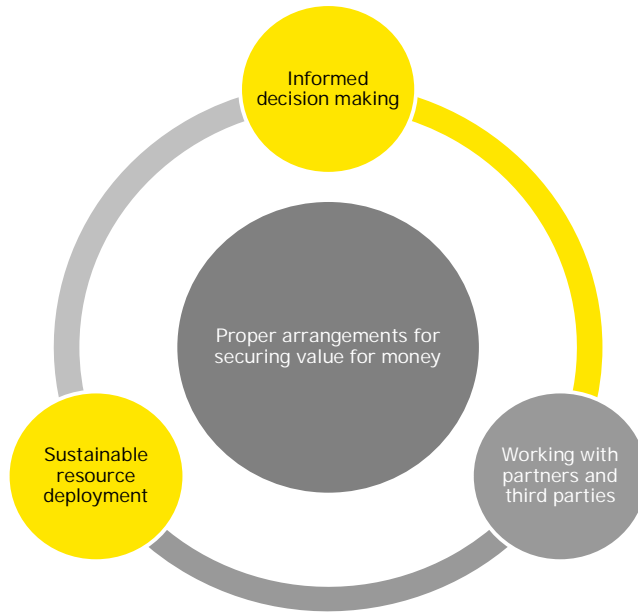
Account 31 st March 2017 	Comprehensive income and expenditure statement (Increase)/Decrease (£'000) 	Balance sheet (Decrease)/Increase (£'000) 
<u>Greater London Authority and Group:</u>		
Projected misstatement due to the incorrect recognition of income relating to 2017/18 in 2016/17; income of £5,500 was accrued but the service was not delivered until July 2017. This results in a projected misstatement of £2.3 million: Dr Gross Income Cr Sundry Debtors	2,305	(2,305)



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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 use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risks around these arrangements. The tables below present our findings in response to the risk in our Audit Plan.

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



Value for Money

VFM risks

We are only required to determine whether there is any risk 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.

The table below presents the findings of our work in response to the risks areas in our Audit Plan.

What is the significant VFM risk?	What arrangements did this	What are our findings?
<p>Governance of the London Legacy Development Corporation (the Corporation)’s key projects</p> <p>The Cultural and Education District (CED) Project is by far the most significant project which the Corporation has undertaken. Its main objective is the continued development of the Olympic Park and the securing of the Olympic legacy. The project has a highly significant funding requirement and the GLA are providing funding directly to the Corporation in relation to this.</p> <p>Although the majority of total funding is being provided by third parties, including the Government, a specific charitable fund and a number of educational and cultural bodies involved in the project, the GLA are required to underwrite the cost of the project. As a result, the GLA is exposed to any shortfalls in the funding being provided by third parties in the medium to long term.</p> <p>Similarly, London Legacy Development Corporation provides funding to E20 Stadium LLP. The LLP commenced operations during 2016/17. Any losses incurred by the LLP will be financed by the Corporation and NLI in line with their membership agreement.</p>	<ul style="list-style-type: none"> • Take informed decisions • Deploy resources in a sustainable manner • Work with partners and other third parties 	<p>Our approach has focused on seeing how the Authority is holding the Corporation to account at Board and officer level, on their key projects.</p> <p>During the course of our audit, changes were made to the design of the Cultural and Education District and to the business plan for E20 Stadium LLP. This has meant that original forecasts concerning the income generated by these projects have been revised downwards, and the funding requirements have therefore increased.</p> <p>The GLA has remained an engaged partner in the CED project, with representation on the CED Board, which provides strategic direction and oversight of the project.</p> <p>The GLA have also engaged with the Corporation’s management regularly to understand the developments during the year. We are therefore satisfied that the GLA’s arrangements to date have been appropriate. It is critical that this liaison continues during 2017/18, when the CED masterplan is expected to be finalised.</p> <p>The commencement of stadium operations, along with other developments during the year, have made it clear that the LLP’s contractual expenditure exceeds contractual income. E20 LLP is therefore reliant on the Members (NLI and the Corporation) for funding to continue operations. During 2016/17, the GLA have liaised with the Corporation on the future plans of the partnership and the extent of support required in order for the GLA and the Corporation to achieve their strategic objectives for the London Stadium.</p>



Other matters to bring to your attention

We noted the following issues as part of our audit

What are our findings?

The value for money opinion considers arrangements in place between 1st April 2016 and 31st March 2017. We are required to consider whether or not circumstances following this period indicate failings in arrangements made during the period in question:

"While auditors do not need to gather evidence of outcomes in order to conclude on the adequacy of arrangements in place, they should take account of evidence drawn from outcomes where it comes to their attention, and especially where outcomes suggest that there may be significant weaknesses in those arrangements."

In early 2017/18, London Legacy Development Corporation's commitments in relation to the ongoing operation of the Stadium are uncertain. The Corporation is party to two of the LLP's key contracts. As the ultimate funder of the Corporation, the Greater London Authority is exposed to the financial risks arising from the Stadium and E20 LLP.

We have considered whether not this represents a failing in arrangements in year:

- ▶ The contractual arrangements giving rise to an annual deficit at the LLP were the product of a previous tender process which resulted in a fair contract award.
- ▶ The increase in costs to transition the Stadium between football and athletics mode was due to the design of the seating rather than a management decision during the year.
- ▶ Revenue assumed in the 2015/16 business plan relating to sponsorship was not realised, which was previously unforeseen.
- ▶ The worsening financial position has triggered discussion between the Members in relation to future funding, which are allowable under the Members' Agreement.
- ▶ The Greater London Authority has exercised oversight and challenge throughout the transformation process.

Therefore the potential gap in the Corporation's funding to ensure it will have sufficient funding to meet its commitments in all eventualities has been triggered by agreements between the Members of E20 in relation to future funding, as well as historic contractual arrangements which occurred outside of the period under review. We have concluded that this situation is not indicative of a lack of proper arrangements during 2016/17 either at the Corporation or a governance failure at the Greater London Authority, but that it is the product of historic contractual decisions.

It is imperative, however, that all parties concerned make decisions regarding the future of E20 LLP as soon as possible so that progress can be made and cost to the public purse minimised.



06

Other reporting issues



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 2016/17 with the audited financial statements

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

We also review the Directors' Report and the Strategic Report in Greater London Authority Holdings and GLA Land and Property.

Following some minor numerical amendments to the Narrative Report, financial information in Statement of Accounts 2016/17 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements 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.

Our work is currently ongoing in this area. However, to date we have no issues to raise.



Other reporting issues

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;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

At the time of writing, some of the requested external confirmations are outstanding. We will consider whether or not alternative procedures are required. We have no other matters to report.



07

Assessment of Control Environment



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.

A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a drawer filled with numerous manila-colored folders, each containing stacks of papers. The background shows the metal shelves of the cabinet.





08 Appendices



Appendix A

Required communications with the Mayor

There are certain communications that we must provide to those charged with governance of UK clients, which for Greater London Authority Group is the Mayor. We have done this by:

		 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the 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 	September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about the Greater London Authority, Greater London Authority Holdings or GLA Land and Property's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	September 2017 Audit Results Report







Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Authority whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Authority responsibility. 	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the Authority whether any subsequent events have occurred that might affect the financial statements. 	Our procedures in this area are ongoing. We will ask management and those charged with governance. To date, we have no matters to report.
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	We have no matters to report.
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	At the time of writing, we have received all requested confirmations]
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" ▶ Asking the Authority about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Authority. 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations







Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	September 2017 Audit Results Report October 2017 Annual Audit Letter
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team's planned involvement in the component auditors' work on the financial information of significant components ▶ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements. 	March 2017 Audit plan September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm's general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	March 2017 Audit Plan September 2017 Audit Results Report



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	March 2017 Audit Plan September 2017 Audit Results Report



Appendix B

Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 March 2017.

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

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

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017

We confirm that we have undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.




Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
GLA Audit Fee - code work	109,500	109,500	109,500	109,500
GLAP Audit Fee	112,000	112,000	N/A	112,000
Non-Audit Work: Certification of grant claims	2,300	2,300	N/A	4,000



Appendix C

Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
The financial statements	Finalisation and review of the final versions of the financial statements	EY and management
Management representations	Receipt of the signed management representation letter.	Management
Whole of Government Accounts	Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission	EY and management





Appendix D

Accounting and regulatory update

Accounting update

The following table provides a high level summary the new accounting standards and interpretations that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Greater London Authority Group 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for company and local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>The Authority has identified that the biggest impact on the Company accounts will be on the treatment of their mortgage assets.</p> <p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Authority will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>The Authority is awaiting clarification of the exact requirements before investing time in the above work.</p>



Appendix D


<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">• Leases;• Financial instruments;• Insurance contracts; and• for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Authority will have to:</p> <ul style="list-style-type: none">• Disaggregate revenue into appropriate categories• Identify relevant performance obligations and allocate income to each• Summarise significant judgements <p>The Authority anticipates a material impact but is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to classify all of its leases, and the leases of its companies, and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Authority has yet to commence work in this area due to the timing of implementation.</p>



Appendix D

Accounting and regulatory update (continued)

Regulatory update

Name	Summary of key measures 	Impact on Greater London Authority Group
<i>Policing and Crime Act 2017</i>	The key measures summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion: <ul style="list-style-type: none">Abolition of The London Fire and Emergency Planning Authority and the transfer of functions, property, rights and liabilities to London Fire Commissioner (LFC) which will form part of the GLA.	<ul style="list-style-type: none">The GLA will determine governance arrangements of the LFCThe GLA will need to assess its group boundary to determine whether or not the London Fire Commissioner forms part of the group.



Appendix D

Earlier deadline for production and audit of the financial statements from 2017/18

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.

These changes provide challenges for both the preparers and the auditors of the financial statements.

To prepare for this change the Authority has taken a number of steps as outlined below:

- Critically reviewed and amended the closedown process to achieve draft accounts production by mid-June for 2016/17
- Streamlined the Statement of Accounts removing non-material disclosure notes

As auditors, nationally we have:

- Issued a thought piece on early closedown
- As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales
- Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017

Agreed areas for early work which has included testing of major income and expenditure streams and journals at month 9.



Appendix E

Management representation letter

Below is the GLA Group Letter of Representation. We will also require a letter of representation for GLA Land and Property and Greater London Authority Holdings.

Management Rep Letter (raft)

[To be prepared on GLA letterhead]

14th September 2017
Karl Havers
Partner
Ernst & Young

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 2017. 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 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our consolidated and Authority’s 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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Group and Authority, our responsibility for the fair presentation of the consolidated and Authority financial statements. We believe the consolidated and Authority financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the consolidated and Authority financial statements.



Appendix E

Management Rep Letter

3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.
4. As members of management of the Group and Authority, we believe that the Group and Authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17] for the Group and for the Authority that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Authority financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention by the auditor because the amount calculated is an extrapolation based on one instance of an over accrual of income valued at £5,500.00.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or authority financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or authority financial statements or otherwise affect the financial reporting of the Group or Authority.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and Authority financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:



Appendix E

Management Rep Letter

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and Authority financial statements.
 3. We have made available to you all minutes of the meetings of the Authority, and committees or summaries of actions of recent meetings for which minutes have not yet been prepared held through the year to the most recent meeting dated 7th September 2017.
 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.

E. 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 all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and Authority financial statements or notes



Appendix E

Management Rep Letter

thereto.

G. 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.

H. Other information

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

I. 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 2016/17.
2. We confirm that the significant assumptions used in making the pensions, property and provisions estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Authority financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
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.

J. Retirement benefits

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

K. Related Party Transactions

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



Appendix E

Management Rep Letter

L. Specific Representations

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.

Ownership of Assets

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

Reserves

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

Income and Indirect Taxes

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

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.



Appendix E

Management Rep Letter

Use of the Work of a Specialist

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

The Orbit Loan

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

Classification of Property

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

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

Yours faithfully,

Martin Clarke

Executive Director – Resources

Sadiq Khan

Mayor of London

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