

M O P A C

MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

DIRECTORATE OF AUDIT, RISK AND ASSURANCE
Internal Audit Service to the GLA

REVIEW OF INCOME FROM THE GLA ESTATE

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1. Background

- 1.1 This review has been carried out as part of the Greater London Authority (GLA) 2014/15 audit plan. The GLA seeks to maximise the income it generates through contractual arrangements, rents, lease charges and other levies from its extensive land and property estate.
- 1.2 At the outset of the review, the potential risks identified to achieving the objectives of income from the GLA Estate were:
- Inadequate arrangements for recording, monitoring and collecting income
 - Poor contract management
 - Inaccurate and incomplete record keeping
 - Loss or misappropriation of income
 - Ineffective monitoring and review processes
- 1.3 We are looking to provide assurance that the key risks are being effectively managed.
- 1.4 Strategic Projects and Property who are part of the Housing and Land Directorate are responsible for the overall management of the GLA land estate. The team's projects include Royal Albert Dock, Beam Park, South Dagenham, Crystal Palace National Sports Centre, London Thames Gateway Development (LTGDC) and Greenwich Peninsula. The team also manage a number of sites with existing development agreements in place which will deliver benefits over the coming years, including new housing, commercial space and jobs. Monies are received from the estate through rents, licenses and disposal of assets.

2. Audit Assurance

Adequate Assurance
Key risks are being managed effectively; however, a number of controls need to be improved to ensure business objectives are met.

3. Areas of Effective Control

- 3.1 Adequate procedures have been established for the collection of income from the estate. Income has been identified and payments are received on a quarterly basis. A spreadsheet has been produced showing all income due, payments received and lease arrangements. Asset registers are maintained by the Capital Accountant with records of all assets also held by the Strategic Projects and Property team.
- 3.2 Contracts are in place with GVA Grimley Ltd (GVA), Greenwich Leisure Ltd (GLL) and Debenham Thouard Zadelhoff (DTZ). GVA are now responsible for the majority of the estate following the transfer in June 2014 of the Homes and

Communities Agency (HCA) portfolio, previously managed by DTZ. Crystal Palace National Sports centre is managed by GLL, however, options are currently being considered whether to retain or dispose of the Sports Centre. Monthly Management reports are received by the Estates Officer and discussed with contractors on a regular basis.

- 3.3 All income from the GLA estate is received and processed by Finance. Income received is posted to the GLA Land and Property Ltd (GLAP) account and monthly reports are produced and reviewed. Regular meetings are held with Estate Officer and Finance and outstanding amounts are identified.
- 3.4 Reconciliation and monitoring processes are undertaken by Finance on a quarterly basis and records are maintained. Anomalies are identified and had been recorded showing any follow up action taken.

4. Key Risk Issues for Management Action

- 4.1 Records are in place showing income due and any outstanding monies due to the Authority. However, no records are maintained to show meetings held with contractors, any issues identified and action taken to resolve issues.
- 4.2 Monthly and quarterly reports are received by the GLA from GLL in relation to the National Sports Centre and GVA for the rest of the Estate. Reports contain details of income received, financial accounts and services provided. Reports are discussed on a monthly basis by GLA and contractors; however, reliance is placed on information supplied by the Contractors and no further checks are undertaken by GLA on Contractors' financial information.
- 4.3 Reconciliations had been undertaken on income received and the balance sheet; however, there was no evidence of who had undertaken the review or of any independent review of the reconciliations.

FINDINGS AND RECOMMENDATIONS

5. Review Objectives

5.1 Our overall objective was to review the adequacy of the control framework in place for the receipt of income from the GLA estate. In particular, we sought to give an assurance that:

- Adequate procedures are in place to ensure that all income received is recorded, collected and monitored and that data held is accurate and appropriately maintained.
- Contractual arrangements with third parties who manage the estate on behalf of the GLA are managed appropriately.
- All income from the GLA estate is received, processed and adequately controlled.
- Reconciliation and monitoring processes and reporting controls have been established and are working effectively.

6. Scope

6.1 We reviewed the effectiveness of the control framework supporting the arrangements in place with legacy organisations and related parties such as GLA Land and Property (GLAP) and GVA Grimley Limited (GVA) for income collection generated from the estate. In particular we looked at the maintenance of asset registers, contractual arrangements with third parties, identification and receipt of income, record keeping, monitoring and review processes.

7. Income Received, Recorded and Monitoring

7.1 All income has been identified by the Estates Officer following an exercise undertaken to capture all income due relating to rent due and monies from the issue of licenses. All leases were reviewed which showed money due to the Authority and details have been recorded on an income statement produced by the Estates Officer. The income statement which contained all amounts due and payments received was provided by the Estates Officer within Strategic Projects and Property and compared to a number of leases to ensure documents were in place and amounts due had been adequately recorded. Leases were located for 13 out of the 15 assets reviewed, 2 of which related to land and records were not in place. Payments due to the Authority were shown in the leases and had been recorded on the income statement.

7.2 The income breakdown statement is updated on a monthly basis by the Estates Officer showing all income received. Income not received is identified by the Estates Officer, recorded and discussed with the Contractors on a monthly basis; however we found that no record of any action taken is maintained by the Estates Officer.

FINDINGS AND RECOMMENDATIONS

Recommendation

Records are maintained by Strategic Projects and Property to show meetings held with contractors and to include any issues identified and the action taken.

- 7.3 Licenses are provided by the GLA to outside companies for the use of property for the purpose of filming, photo shoots, car parking and helicopter landing. Requests had been submitted to GVA and forwarded to GLA for approval by the Senior Manager Land Estates and Property. A record of licenses granted is maintained and this was checked to supporting requests to ensure all licenses were authorised. Supporting documentation was located for all licenses reviewed and license payments as recorded on the request forms were shown on income statements provided by GVA to GLA.
- 7.4 We reviewed a list of disposals to ascertain if disposals were recorded, had been adequately authorised and were shown in the accounts. Details for disposals was provided for the last year and showed fourteen disposals. Eleven authorised MDs were located for the disposals with the remaining three leases being signed prior to transferring to the GLA. Payments from the disposals were shown on the financial accounts and in the bank account.

8. Contractual Arrangements

- 8.1 We confirmed that signed contracts are in place for GVA, GLL and DTZ. Contracts in place are between the contractors and London Development Agency (LDA) for GVA, GLL and Homes and Communities Agency (HCA) for DTZ. Although contracts are in place, contracts were not updated when LDA and HCA transferred to the GLA.
- 8.2 An extension has been awarded to GVA until the end of March 2015 and the contract with DTZ will be concluded in June 2014 with the DTZ portfolio being transferred to GVA who will manage the majority of the GLA estate excluding the Crystal Palace National Sports centre which is managed by GLL.
- 8.3 Monthly reports are received by Strategic Projects and Property from GVA. The report submitted for April 2014 covering the Royal Docks, Dagenham, Former LTGDC and Rest of London contained detail of all assets, tenant name, term of lease and charges. Meetings are held with Strategic Projects and Property and GVA following receipt of the report, however no records are maintained to show meetings held, issues identified or action taken.
- 8.4 GLL is responsible for the management of the Crystal Palace National Sports Centre and states in the contract that any surplus arising shall be shared as 33.3% retained by the contract, 33.3% paid to LDA/GLA and the balance 33.3% transferred by the Contractor to a specially designed bank account called the "Crystal Palace National Sports Centre Reinvestment Fund". Monthly and quarterly reports are produced by GLL showing income and expenditure which showed that no money was due to the GLA; however no further checks had been

FINDINGS AND RECOMMENDATIONS

undertaken by GLA to confirm figures submitted are correct and whether any monies would be due to the GLA.

Recommendation

Spot checks of contractor financial records are undertaken by GLA to confirm amounts submitted and determine whether the correct amounts are being paid to the GLA.

9. Processing of Income

- 9.1 Income is collected on behalf of Strategic Projects and Property by GVA and DTZ in relation to assets. Any surplus share on income for GLL is split between the contractor, GLA and Reinvestment Fund.
- 9.2 DTZ Income breakdowns – summary and actual client's statements are provided to the GLA on a monthly basis. The report showed monies collected by each quarter and details of their banking summary, cash book summary, debtor control account, creditor control account and expenditure transaction total. Amounts submitted by DTZ were located on the GLAP bank account and balance sheet.
- 9.3 Monies are collected by GVA on behalf of GLA and client supporting reporting packs had been provided and included aged debt report, client statement/summary, bank statement, expenditure and income downloads and cash reconciliation. Until recently funds had been held in a GVA account on behalf of GLAP but since March 2014 all monies collected by GVA are paid directly to the GLA via the GLAP bank account and we found that an accumulated surplus to the value of £3.4m was paid into the GLAP bank account in May 2013.
- 9.4 We confirmed that Income received from the Estate had been paid into the GLAP bank account and details posted to GLAP balance sheet account. Monthly Management account reports produced from the Finance SAP IT system for GLAP are produced by the Senior Accountant and submitted to the Senior Manager Land Estates and Property on a monthly basis. The reports contained a number of transactions relating to other aspects of property and it was difficult to trace payments made in the bank account to the GLAP management reports, therefore we are unable to confirm that correct amounts have been posted to the GLAP management accounts and this may result in a risk that management accounts are not showing a true record.

Recommendation

A process is explored whereby all rental income is clearly recorded to assist in confirming amounts paid into the GLAP bank account.

10. Reconciliation, Monitoring and Reporting Processes

10.1 Our review found that quarterly reconciliations had been undertaken by contractors and information had been sent to GLA.

10.2 We confirmed that reconciliations had been undertaken of the GLAP rent ledger and balance sheet for DTZ and GVA Cash and Bank reconciliation and balance sheet for GVA. We reviewed reconciliations submitted for the last two months and found that there was no evidence of who had undertaken the reconciliation or whether there had been an independent review of the reconciliations.

Recommendation

Reconciliations are independently reviewed and evidence of the person preparing and reviewing the reconciliation should be clearly shown.

10.3 Adequate reporting arrangements are in place to enable decision making with reports being produced in relation to the estate which are submitted to the Housing Investment Group (HIG), the Budget and Performance Committee and the Budget Monitoring Sub-Committee. We reviewed the reports submitted to the HIG in April 2014 and these included details relating to new developments and disposals. A report had also been submitted to provide more details in relation to the planned disposal of some property and included issues and key risks.

10.4 A paper for the GLA Land and Property Assets had been prepared and submitted to the March 2014 Budget and Performance Committee. The paper was discussed with the Committee and representatives from each of the GLA Group including Mayor's Office for Policing and Crime, London Fire Brigade, and GLA.

10.5 Matters relating to GLA assets had also been reported in the quarterly GLA Finance and Performance Monitoring Report – third quarter 2013/14 which had been submitted to the Budget Monitoring Sub-Committee in March 2014.

RISK AND AUDIT ASSURANCE STATEMENT – DEFINITIONS

Overall Rating	Criteria	Impact
Substantial	There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.	There is particularly effective management of key risks contributing to the achievement of business objectives.
Adequate	The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.	Key risks are being managed effectively; however, a number of controls need to be improved to ensure business objectives are met.
Limited	The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.	Some improvement is required to address key risks before business objectives can be met.
No Assurance	A control framework is not in place to mitigate key risks. The business area is open to abuse, significant error or loss and/or misappropriation.	Significant improvement is required to address key risks before business objectives can be achieved.

RISK RATINGS

Priority	Categories recommendations according to their level of priority.
1	Critical risk issues for the attention of senior management to address control weakness that could have significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to: <ul style="list-style-type: none"> • The efficient and effective use of resources • The safeguarding of assets • The preparation of reliable financial and operational information • Compliance with laws and regulations.
2	Major risk issues for the attention of senior management to address control weaknesses that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
3	Other recommendations for local management action to address risk and control weakness that has a low impact on the achievement of the key system, function or process objectives ; or this weakness has exposed the system, function or process to a key risk, however the likelihood is this risk occurring is low.
4	Minor matters need to address risk and control weakness that does not impact upon the achievement of key system, function or process or process objectives; however implementation of the recommendation would improve overall control.

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
7.2	Income not received is identified by the Estates Officer, recorded and discussed with the Contractors on a monthly basis; however we found that no record of any action taken is maintained by the Estates Officer. There is a risk that action may not be taken to obtain all income due.	3	Records should be maintained by Strategic Projects and Property to show meetings held with contractors and to include any issues identified and the action taken.	Yes	Interim arrangements to be made with existing service providers. New processes to be introduced into consolidated Estate Management contract from start of next financial year.	September 2014 April 2015
8.4	Monthly and quarterly reports are produced by GLL showing income and expenditure which showed that no money was due to the GLA; however no further checks had been undertaken by GLA to confirm figures submitted are correct and whether any monies would be due to the GLA. There is a risk that money which may be due to the GLA is not identified and received.	2	Spot checks of contractor financial records should be undertaken by GLA to confirm amounts submitted and determine whether the correct amounts are being paid to the GLA.	Yes	Contractual arrangements to be reviewed (including with LLDC as GLL undertake similar activity at the Aquatic centre and the Copperbox) to ascertain if spot checks are viable Identify appropriate party to undertake spot checks If appropriate, implement check	October 2014 October 2014

ACTION PLAN

Ref.	Findings and Risk	Priority	Recommendations	Accepted	Management Response and Responsibility	Target Date
9.4	Monthly Management account reports produced from the Finance SAP IT system for GLAP are produced by the Senior Accountant and submitted to the Senior Manager Land Estates and Property on a monthly basis. The reports contained a number of transactions relating to other aspects of property and it was difficult to trace payments made in the bank account to the GLAP management reports, therefore we are unable to confirm that correct amounts have been posted to the GLAP management accounts and this may result in a risk that management accounts are not showing a true record.	3	A process should be explored whereby all rental income is clearly recorded to assist in confirming amounts paid into the GLAP bank account.	Yes	H&L and Finance are currently reviewing roles, responsibilities and processes in respect of the GLAP portfolio from an accounting perspective. This will be included within that review	November 2014
10.2	We reviewed reconciliations submitted for the last two months and found that there was no evidence of who had undertaken the reconciliation or whether there had been an independent review of the reconciliations.	3	Reconciliations should be independently reviewed and evidence of the person preparing and reviewing the reconciliation should be clearly shown.	Yes	Balance sheet reconciliations will be signed by preparer and approver.	July 2014