



Private and Confidential November 2020

#### Dear Mayor

We are pleased to attach our audit results report. This report summarises our audit conclusions in relation to the audit of the Greater London Authority Group for 2019/20. We have substantially completed our audit of the Greater London Authority Group (the Authority) for the year ended 31<sup>st</sup> March 2020. We expect to issue our audit opinion at the conclusion of our audit by 4 December 2020, subject to completion of our final internal review procedures.

As set out on pages 5 to 6, a number of issues have arisen as a result of Covid-19 which impact on our audit opinion.

We confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also expect to have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

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

Yours sincerely

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Encl

### **Contents**



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (<a href="https://www.psaa.co.uk">www.psaa.co.uk</a>). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Mayor, Directors of Greater London Authority Holdings and GLA Land and Property, the Audit Panel, other members of the Authority, and senior management of Greater London Authority Group, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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





#### Scope update

In our audit planning report dated March 2020 and update dated May 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

#### Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

#### Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats concerning this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- ▶ **Disclosures on Going Concern** Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Events after the balance sheet date We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic would need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.
- Adoption of IFRS16 The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

#### Changes to the scope of our audit as a result of Covid-19

- As noted in the risk assessment above, due to Covid-19, we have had to carry out additional procedures to obtain our assurance. These procedures have included:
  - Extended review of management's going concern assessment and the disclosure in the financial statements;
  - Engaging with internal technical specialists in relation to the assessment of credit losses and accounting treatment for loan investments and long term debtors under IFRS9; and
  - Engaging our internal valuers (EY Real Estates) to assess the material accuracy of land and building valuations.



#### Scope update

#### Changes in materiality

In our Audit Planning Report, we communicated that our audit procedures for the GLA single entity would be performed using a materiality of £56.0 million, with performance materiality, at 75% of overall materiality, of £42.0 million, and a threshold for reporting uncorrected misstatements of £2.8 million.

We have considered whether any change to our materiality is required following receipt of the draft financial statements and have also reconsidered our risk assessment in light of Covid-19. We have updated our overall materiality assessment to £55.5 million for GLA and 58.8 million for the group audit, which results in updated performance materiality of £41.6 million (44.1 million for Group), and an updated threshold for reporting uncorrected misstatements of £2.7 million.

The basis of our assessment has remained consistent with prior years at 1% of gross operating expenditure.

#### Other factors

- Information Produced by the Entity (IPE) We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:
  - · Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agreed IPE to scanned documents or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports due to Covid-19 The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 39.

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



#### 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 2020 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority financial statements in the form which appears at Section 3.

- Receive and review the signed financial statements and letter of representation;
- · Complete subsequent events review up to the date of our audit report; and
- Complete the work on the Whole of Government Accounts return and report to the National Audit Office.

#### **Audit differences**

As at the date of preparing this report, there are no unadjusted or adjusted audit differences arising from our audit.

However, we are aware that an audit adjustment will be required once the financial statements of London Legacy Development Corporation are consolidated. We are awaiting receipt of assurances from the EY component auditor and will report the adjusted audit difference to the Mayor before we issue our auditor's opinion.

#### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Greater London Authority Group's financial statements This report sets out our observations and conclusions. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

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

## Executive Summary

#### Control observations

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

#### Independence

Please refer to Section 8 for our update on Independence.





## Significant risk

#### Misstatements due to fraud or error

Applicable to: **GLA Group GLA SE GLAH** 

#### What is the risk?

Significant Risk

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

#### What judgements are we focused on?

We assess that the risk is particularly associated with:

- journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements:
- accounting estimates; and
- significant unusual transactions.

#### What did we do?

We undertook our standard procedures to address fraud risks, which include:

- Inquiry of management about risks of fraud and the controls put in place to address those risks;
- Understanding the oversight given by those charged with governance of management's processes over fraud;
- Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- · Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Assessing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for any significant unusual transactions.

#### What are our conclusions?

Our work on journals is complete. No issues have been identified.

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

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.

Our work on accounting estimates and assessing for evidence of management bias is in progress. Should any issues arise, we will report these before signing our auditor's opinion.



## Significant risk

Risk of fraud in revenue and expenditure recognition

Applicable to: **GLAH** 

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.



#### What judgements are we focused on?

We have considered this presumed risk in relation to those significant income streams which could be subject to manipulation, and identified the following area of risk:

• GLA Land and Property recognises material income from property disposals, which is consolidated into GLA Holdings.

This income stream is not material to the GLA group.

#### What did we do?

We undertook the following procedures to address this risk:

 Testing a sample of property disposals back to source information including sales invoices, evidence of disposal receipts into the bank, and lease agreements.

#### What are our conclusions?

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

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the financial position.



## Significant risk

#### Incorrect classification of capital spend

Applicable to: **GLA Group** GLA SE

#### What is the risk?

Practice note 10 issued by the Financial Reporting Council, states that auditors should consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The potential for the incorrect classification of capital spend as revenue is a particular area where there is a risk of management override at GLA Group due to the material expenditure incurred on supporting housing developments in the capital through both the Greater London Authority as grant expenditure (financed by capital), and its financing of the functional bodies.



#### What judgements are we focused on?

Revenue expenditure funded from capital under statue (REFCUS) represents a significant area of expenditure for the Authority (£1.9 billion).

If incorrectly financed from capital, this would have a significant impact on the General Fund balance and therefore the Council Tax requirement.

#### What did we do?

Our testing was focussed on REFCUS:

- We tested for appropriate classification and valuation, challenging where the classification was based on judgement; and
- Confirmed that there were no accounting estimates made by management relating to the apportionment of expenditure between revenue and capital for evidence of bias.

#### What are our conclusions?

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



## Significant risk

#### E20 Operous Contract **Provision**

Applicable to: **GLA Group** 

#### What is the risk?

When the stadium commenced operations it became clear that for two of its three key contracts, the expenditure associated is likely to exceed the income received, rendering them onerous under IAS 37.

A material provision has therefore been recognised. This provision is updated annually based on judgements made by management in the E20 five year business plan, which is extrapolated to ten years. In 2019/20, this will necessarily reflect progress made against the LLP's restructuring plans and any future plans.

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



#### What judgements are we focused on?

A 5-year business plan was produced which was extrapolated over 10 years (discounted into perpetuity) and then used to support the valuation of the provision.

The 5-year business plan contains judgements over anticipated expenditure. performance of the Stadium operator, and income streams. E20 management has recognised the Stadium at a nil carrying value and used the valuation of the Stadium as a proxy for the onerous contract provision.

- Management's judgement is that the valuation of the Stadium asset, which is based on the business plan is an appropriate proxy for the impact of the onerous contracts and therefore for the onerous contract provision.
- Any discount rates applied to the level of net expenditure forecast in the business plan, and the period over which cash flows are assumed to continue at this level are judgements made by the valuer and accepted by management.
- The valuation and provision assume that E20 is a going concern, and that it will continue to receive funding from its parent, LLDC.

#### What did we do?

- We assessed the competence of the management's expert;
- We reviewed the inputs into the provision calculation, most notably, the E20 5year business plan (extrapolated to 10 years) - testing key elements back to source documentation and identifying and challenging key judgements;
- We assessed the upsides and downsides in this forecast, as well as the known changes that have occurred since the forecast was produced; and
- We reviewed key contracts and their reflection in the business plan and provision calculation.

#### What are our conclusions?

- We have challenged the business plan by engaging EY Technical Specialist to review the updated business plan and the assumptions underpinning for our audit assurance.
- We have sought to corroborate explanations from Management as a result of our challenge of the business plan.
- We assessed the completeness of costs captured and identified no material omissions.
- We obtained inputs, such as contracts, supporting the value of the income streams recognised in the plan and identified no material issues with the valuation. Each income stream had a basis with varying levels of judgement applied.
- We additionally performed shadow calculations which varied both the timespan and the discount rate adopted. This indicated a possible range of £191m - £204m. We note that the provision recognised of £200.1m falls within this range.
- We note that the provision is an estimate and is highly dependent on future actions and business plans. We also note that future actions could improve the financial outlook, which would result in a reduction to the level of provision required in future accounting periods.
- We therefore conclude that the onerous contract provision is a reasonable estimate of future losses without substantial changes to the business plan and contractual matrix at this point in time.



## Significant risk

Assessment of GLA Group **Boundary and preparation** of group accounts

#### What is the risk?

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

The role of the Authority, along with its structure and working relationships, has continued to evolve over time. Following the establishment of the London Fire Commissioner as a corporation sole from 1 April 2018, the Authority has needed to assess whether or not it controls the corporation sole. This is an ongoing assessment.



#### What judgements are we focused on?

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

For London Fire Commissioner, we have re-assessed whether the change in governance arrangements at as 1 April 2018 mean that the Mayor now controls the London Fire Commissioner.

#### What did we do?

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

We have also looked for any evidence of changes in governance arrangements during 2019/20 on the matter of control of London Fire Commissioner.

We have reviewed Mayoral and Director decisions, as well as meeting minutes, to look for evidence of control.

We have considered the materiality of other bodies to the overall size of the group, such as London Treasury Limited and London Power, and whether or not management's consolidation decision is supportable.

#### What are our conclusions?

Management has assessed that up to 31 March 2020, there were no indications that the Group had full control over the London Fire Commissioner.

On the grounds of materiality, it has opted not to consolidate London Treasury Limited or London Power Company. We agree with management's conclusions regarding the group boundary.

We have not identified any significant errors in the consolidation of the accounts.



## Significant risk

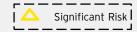
#### Risk of error in property valuations

Applicable to: **GLA Group** GLAH

#### What is the risk?

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

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



#### What judgements are we focused on?

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

A key assumption driving the movement in the Corporation's investment property valuations is the level of assumed affordable housing. The interpretation of 'highest and best use' is also a key judgement, since the assets are valued under IFRS 13.

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

#### What did we do?

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

We reviewed the classification of assets and assessed whether the valuation basis matched current plans and activity for the use of assets.

We reperformed a sample of the valuers' calculations and tested key asset information used by the valuers in performing their valuation.

We tested accounting entries to ensure they have correctly reflected in the financial statements.



## Significant risk

Risk of error in property valuations (cont.)

Applicable to: **GLA Group** GLAH

#### Additional procedures we undertook in response to our risk due to Covid-19

We engaged our internal EY Real Estates (EYRE) specialist to specifically consider and review a sample of property valuations to gain assurance over their material accuracy and assess the appropriateness of the methodology and assumptions applied by the valuer.

We considered and addressed the comments from the outcomes of the EYRE review.

We ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty reported by the Group's valuer relating to year end valuations.

#### What are our conclusions?

The Royal Institute of Chartered Surveyors (RICS), the body setting standards for property valuation, has issued guidance to valuers highlighting the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.

The valuer, GL Hearn, has reported on the basis of a material uncertainty per VPS3 and VGPA 10 of the RICS red Book Global in relation to the valuations provided for LLDC.

We have identified and tested the significant assumptions used by the valuer with the assistance of our specialist, EY Estates. Errors were identified in LLDC valuations which results in a £50m reduction in Investment Property in the current year and £100m reduction in the prior year which needed restating. Management have adjusted for these. The adjusted audit difference is included in Section 4.

We have reviewed the disclosures in relation to the property valuations and are satisfied that they are consistent with the external valuer's report.



## Significant risk

#### **Pension Liability Valuations**

Applicable to:

**GLA Group GLA SE** GLAH

#### What is the risk?

The Code of Practice on Local Authority Accounting in the United Kingdom and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Authority's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a significant risk.

#### What judgements are we focused on?

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

We have understood the composition of the pension fund assets, of which the GLA Group has a combined share of less than 5%.

#### What did we do?

We undertook the following procedures to address this risk:

- Liaised with the auditor of the administering authority (London Pension Fund Authority) to obtain information and supporting evidence over the investment asset values;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pension specialists; and
- Reviewed the IAS 19 actuarial report and checked that the amounts agreed to the disclosures made in the Authority's financial statements.

#### What are our conclusions?

An additional consideration in 2019/20 has been the impact of Covid-19 on the valuation of complex (level 3) investments held by London Pension Fund Authority where valuation at 31 March 2020 will be estimated. This impacts on the IAS 19 reports provided by the actuary and the assurances over asset values that are provided by the pension fund auditor, and as a result the assurance we are able to obtain over the net pension liability position in the GLA's accounts.

We have considered the outcome of the assurance received from the Pension Fund auditor in relation to other areas. The Pension Fund auditor also reported a material uncertainty as at 31 March 2020 on Infrastructure and Real Estate fund assets which have been referred to as an Emphasis of Matter (EoM) in their audit opinion. We have concluded that the impact of that EoM is not fundamental to GLA and therefore we would not expect any additional disclosure in the GLA accounts.

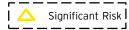
We also considered the recently issued consultations for different pension schemes on the restitution for the judgements from the McCloud and Goodwin cases. We have concluded that the impact of both in GLA's pension liability is not material.



## Significant risk

#### Business rates pooling and appeals provision

Applicable to: **GLA Group GLA SE** 



#### What is the risk?

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

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

2019/20 is the second year that NDR pooling has been in place across London, administered by the City of London. The GLA will receive 36% of all business rates income in London and also record the same share of provisions, debtors and creditors on its balance sheet.

2017/18 saw the introduction of a new three stage approach to business rates appeals - Check, Challenge, Appeal. This revised process has made the assessment of both the number and value of successful appeals not yet lodged more difficult. This change remains relevant to the level of risk associated.

Due to the increased pressures local authorities are facing following the outbreak of Covid-19, the Ministry of Housing, Communities and Local Government (MHCLG) announced in April 2020 that the deadline for submission of national non-domestic rates 3 (NNDR3) returns to precepting Authorities has been extended until 31st July 2020. In order to ensure the timely production of the GLA's financial statements, the appeals provision may require an additional level of estimation uncertainty. There is also an increased risk of error within the underlying information being provided by London Billing Authorities to the GLA.

The provision figure is judgemental, and errors in the underlying data or judgements made by billing Authorities could result in material error in the GLA financial statements. The risk of error has increased due to Covid-19, increasing the risk level to significant.



## Significant risk

Business rates pooling and appeals provision (cont.)

Applicable to: **GLA Group GLA SE** 

#### What judgements are we focused on?

There is no historic data related to the likelihood of success of appeals associated with the 2017 valuation listing, therefore this element of the provision is subject to a greater level of estimation uncertainty.

There is therefore an assumption made by most London Boroughs that the level of success and/or the resulting adjustment will be consistent with that seen for the 2010 and 2017 rating list.

#### What did we do?

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

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

For a sample of billing Authorities, we also obtained direct assurance from the London Billing Authorities either by performing work on their calculations to assess for reasonableness or making inquiries of their auditors. We paid particular attention to the provisions associated with the 2017 valuation listing since we assessed that this element of the provision was subject to a greater degree of estimation uncertainty.

We tested accounting entries to ensure they have correctly reflected in the financial statements.

We also assessed the steps taken by the Authority to ensure the disruption caused by Covid-19 has not adversely impacted on the accuracy and reasonableness of the provision.

#### What are our conclusions?

We have completed our testing on the figures associated with the business rates pooling and have no issues to report.



## Significant risk

#### Valuation of Loan **Investments**

Applicable to: **GLA Group** GLAH

#### What is the risk?

Greater London Authority Holdings (GLAH) Ltd holds a portfolio of loan investments in property developers, part of a wider strategy to assist in achieving the Mayor's affordable housing objectives. This portfolio is material to both the GLAH and GLA Group financial statements.

These investments are accounted for in line with IFRS 9. Management are planning to engage with external specialists to assist with the associated impairment review. GLAH currently adopts the general approach under which the Group has to assess the credit risk status of financial assets to determine which one of three stages of credit deterioration should be applied to determine the amount of expected credit loss to recognise and how interest income should be recognised. The outcome of this assessment will directly impact on the valuation of the investments in both the GLAH and GLA Group balance sheet on consolidation.

#### What judgements are we focused on?

Covid-19 has caused significant disruption to the UK economy, including the real estate sector. The level of credit risk associated with these investments has increased as a result. Therefore there is a higher level of complexity and estimation uncertainty in the valuation, associated with the impairment review under IFRS 9.

#### What did we do?

We assessed the steps undertaken by management's specialist to ensure that the information used to inform the IFRS 9 impairment review was reliable and accurate.

We engaged our EY technical specialist to perform a review of a sample of loan investments and remodel the expected credit losses to compare with those in management specialist's report for any material differences.

We reviewed a sample of loan investments to determine whether the valuation has been appropriately recorded, any credit losses correctly recognised and ensuring that the accounting is compliant with the requirements of IFRS 9.

We ensured that the disclosures associated with the loan investments are appropriate in both the GLAH and GLA Group financial statements.

#### What are our conclusions?

We have completed our testing on the valuation of loan investments and expected credit loss figures and have no issues to report.



## Significant risk

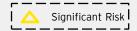
Valuation of Long Term **Debtors (Excluding LLDC)** and GLAP Debtors)

Applicable to: **GLA Group GLA SE** 

#### What is the risk?

The Authority holds a material portfolio of long-term debts with various counterparties, including; functional bodies, subsidiaries, other group bodies and organisations outside of the GLA Group.

These investments are accounted for in line with IFRS 9. Management are planning to engage with external specialists to assist with the associated impairment review. GLAH currently adopts the general approach under which the Group has to assess the credit risk status of financial assets to determine which one of three stages of credit deterioration should be applied to determine the amount of expected credit loss to recognise and how interest income should be recognised. The outcome of this assessment will directly impact on the valuation of the investments in both the GLAH and GLA Group balance sheet on consolidation.



#### What judgements are we focused on?

Covid-19 has caused significant disruption to the UK economy, including the real estate sector. The level of credit risk associated with these investments has increased as a result. Therefore there is a higher level of complexity and estimation uncertainty in the valuation, associated with the impairment review under IFRS 9.

#### What did we do?

We assessed the steps undertaken by management's specialist to ensure that the information used to inform the IFRS 9 impairment review was reliable and accurate.

We engaged our EY technical specialist to perform a review of a sample of debts.

We reviewed a sample of long term debtors to determine whether the valuation has been appropriately recorded and ensuring that the accounting is compliant with the requirements of IFRS 9.

We ensured that the disclosures associated with the loan investments are appropriate in the financial statements.

#### What are our conclusions?

We are completing our testing on long term debtors and have no issues to report.



#### What is the risk/area of focus?

#### Going concern - assessment and disclosure

The auditing standard (ISA 570) is effective for audits of financial statements for periods commencing on or after 15 December 2019. This standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

#### The CIPFA Code 2019/20 states:

'Going concern - an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.'

Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment, with particular reference to Covid-19 and the Authority's actual year-end financial position and performance.

#### What we did?

#### We:

- Reviewed the Narrative Report and Financial Statement disclosures in relation to the financial statements being prepared on a going concern basis; and
- Discussed with the Authority the impact of changes in funding arrangements and additional expenditure as a result of Covid-19 on the Authority's financial planning for the 12 months from our sign off date. We noted that within the original budget, the Authority reported a balanced budget for 2020/21, with total forecast reserves of £591.0 million, including a general reserve of £10.0 million at 31 March 2021.

#### Additional procedures we have undertaken in response to our significant risk due to Covid-19 include:

- Enquiring with management over its going concern assessment and reviewing this for any evidence of bias and consistency with the disclosures in the accounts and other relevant information;
- Reviewing the Authority's cash flow forecasts for the period 12 months from the date of our audit report and considering the impact of scenario planning on these; and
- Considering the impact on our audit report and consulting internally on the appropriateness of disclosures and the format of our audit report.

#### Conclusions:

We made enquiries of management over the impact of Covid-19 on its planned income and expenditure budgets and scrutinised the cashflow forecast to November 2021. This work is currently in progress.

We have also discussed with management the need to make specific disclosures in the statements on going concern.

In addition to the above, we are required to consult internally within EY in respect of the wording of our auditor's report to ensure that it provides the appropriate assurance to the Authority and its stakeholders.





## **Audit Report**

Draft and subject to internal consultation

Our opinion on the financial statements

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

Please see attached pdf document for draft opinion wording.





### Audit Differences

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

#### Summary of adjusted and unadjusted differences

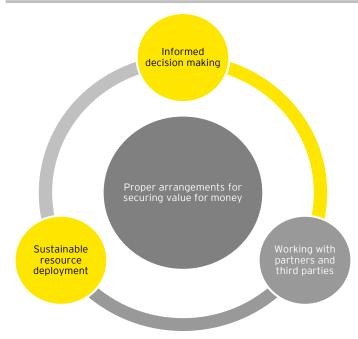
We highlight misstatements greater than £41.6 million, which have been corrected by management that were identified during the course of our audit and we highlight misstatements greater than £2.7 million, which have been corrected by management, relating to Investment Property valuation PDZ1 &2 of Queen Elizabeth Olympic Park:

- £50m reduction in the balance of Investment Property for the current year due to developer profit rates not applied and incorrect private residential element double counted in the prioir year calculation:
- £100m prior year adjustment which reduces the balance of Investment Property due to double counting of the private residential element of the valuation calculation.



## V F M

### Value for Money



#### **Background**

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

For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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

#### Impact of Covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

#### Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

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

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

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

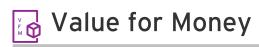
Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

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



# Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
1. Risks arising from financial pressures at functional bodies and subsidiaries  The GLA is exposed to shortfalls in the budgets of its functional bodies, and there is a risk that its long term model will not keep pace with additional borrowing and financing requirements that are identified.  Implementation of the action plans developed by the LFC to address the external inspection findings may result in financial pressures for the organisation, at a time when the medium term financial plan already demonstrates a shortfall in the mid-term. The achievability of proposed actions may therefore rely on additional funding from the GLA.  During 2018/19, additional funding was provided to Transport for London (TfL) to enable progression of Crossrail. Following the KPMG review, the additional required spend is quantified at £860m. Whilst TfL is responsible for any additional costs arising, the GLA will need to be assured that:  a) TfL's plans are robust and sustainable, and do not put delivery of other core services at risk.  b) The GLA's own financial modelling takes into account any further borrowing and financing requirement that TfL are unable to service themselves.  East Bank is the most significant project which the London Legacy Development Corporation (LLDC) has undertaken to date in scale. The project requires significant financial commitments from various organisations including LLDC, the GLA and partners, with whom LLDC has complex agreements for leases in place.  The involvement of multiple partners and scale of the project exposes the Corporation and therefore the GLA to reputational and financial risk, since the GLA is required to underwrite the cost of the project. The GLA will need to make sure that the Corporation's processes for managing risk and monitoring delivery are robust.  In 2019/20, the project has progressed significantly. However, there have been challenges in relation to the tender returns from the market on packages, which are greater than budget. Furthermore, although the development at E	Take informed decisions  Deploy resources in a sustainable manner  Work with partners and other third parties	We have reviewed the arrangements in place at GLA to identify, evaluate and forecast the risks associated with each of its functional bodies, through the budget setting, monitoring and reporting processes in place. In each case we identified:  • Long term funding and financing requirements are considered across the Group, with regular reporting and monitoring in palace  • Assumptions included in the medium-term financial plans are clearly set out and based on the information available at the time of the report. Changes between reporting periods are identified and their impact on the overall financial position of the bodies affected and the Group financial plans clearly articulated  • Risks and uncertainty in funding streams and future costs are considered and reasonable assumptions included within forecasts to ensure future financial sustainability is achievable.



# Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
2. London Fire Commissioner response to external inspection findings  The Grenfell Tower Inquiry October 2019 - phase 1 report was released during the year, in which multiple findings and recommendations were raised in respect of the Commissioner's planning and preparation arrangements in place before the Grenfell incident. Recommendations were also made in relation to the policies and procedures in place within the organisation. Subsequently, the December 2019 HMICFRS Effectiveness, Efficiency and People report was also released during the year, following an inspection period of May to July 2019.  This report identified a number of areas requiring improvement. Most notably this included; staff training, protecting the public through fire regulation and responding to fires and other emergencies. Although notable actions have been undertaken by the Commissioner in response, the arrangements commented on by HMICFRS have been in place for the majority of the 2019/20 financial year.  The Commissioner has also identified that the internal information systems, including KPIs, corporate and strategic risks in place during the majority of 2019/20 had not been adequately focused on the areas identified by those reports.  Under the GLA Act 1999 (as amended by the Policing and Crime Act 2017), the Mayor must hold the London Fire Commissioner to account for the exercise of the Commissioner's functions. The GLA is therefore also exposed to any reputational risk arising from these findings or failure to take	Take informed decisions	We considered the role and actions of the Mayor in holding LFC to account to implement the transformation programme identified as a result of the HMICFRS report. We identified adequate arrangements in place at LFC for contract management, financial planning and other remedial action and noted that LFC engages with the Mayor, providing quarterly business updates on financial position and services risks and mitigations. This provides the Mayor with adequate oversight and in terms of regular action plan progress update, and reporting to the general public.
appropriate action to address them.		



## 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 2019/20 with the audited financial statements

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

Financial information in the Statement of Accounts 2019/20 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.

We plan to complete this work after issuing our audit opinion and therefore will certify the completion of the audit at that point.

#### 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 reporting issues**

## Other reporting 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.

We have no matters to report.





### 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. However, as we have adopted a fully substantive approach, we have not tested the operation of controls.

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.

However, we wish to raise the following area for improvement:

• In our testing of the bank reconciliation, we identified a difference of £5.3 million between the amount recorded in the reconciliation by the Authority for short term deposits/investments and the balance on the general ledger system, with the amount in the reconciliation being higher. Finance officers of the Authority determined that this occurred because Treasury deals for March 2020 could not be posted into period 13 of the general ledger due to the tight deadlines for closure. However, these were posted into period 14 of the general ledger, which we have verified in our testing. Therefore, there is no material misstatement or significant control deficiency

We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.





### Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated March 2020 and update dated May 2020.

We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020, in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Total GLA audit fee - Code work	TBC	128,315 (Note 2)	84,315	104,580 (Note 1)
Total Greater London Authority Holdings audit fee	TBC	122,800 (Note 3)	N/A	112,000
Total London Treasury Limited audit fee	TBC	14,000 (Note 4)	N/A	14,000
London Power Company Fee	TBC	10,000 (Note 5)	N/A	0
Total fees				

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All fees exclude VAT

- (1) The 18/19 Code work includes an additional fee of £20,265, which relates to additional work performed on areas of significant risk. We have agreed the variation with officers and Public Sector Audit Appointments.
- (2) For 2019/20, the GLA scale fee will be impacted by a range of factors which will result in additional work. We set out an estimate of the potential additional fee in our audit planning board report, which provided an overall estimated additional fee of  $\pounds 44,000$ . The issues we identified at the planning stage which will impact on the fee include:
- Additional risks financial statements: £15,300
- Requirements as a result of status as a Major Local Audit: £11,000
- Additional work that has been required to address the value for money risk identified: £11,000
- Costs associated with professional and regulatory compliance changes: £5,200
- Technology and preparedness costs: £1,500

Since the planning stage, we have identified a number of additional risks and changes to our audit scope and additional procedures as a result of Covid-19, as set out on pages 5 to 23 and we have been required to consult more extensively on the impact of these issues on our audit opinion. We therefore anticipate a variation for 2019/20 in relation to the additional work associated with addressing these issues. As we have not yet completed our audit work we are not yet able to quantify the impact on the fee, but will discuss this with management as soon as we are able and this will also be subject to agreement with Public Sector Audit Appointments.

- (3) For 2019/20 the GLAH planned fee will be impacted by a range of factors which will result in additional work. We've set out an estimate of the potential additional fee for this below. This provides an overall estimated additional fee of £10,800. The issues that we identified at the planning stage which will impact on the fee include:
- Additional procedures for IFRS 16: £1,800
- Costs associated with professional and regulatory compliance changes: £9,000
- (4) The London Treasury Limited fee includes the both the statutory audit, and the requirement for CASS reporting.
- (5) The London Power Company fee is dependent upon the level and nature of transactions being processed for 2019/20. When we are in receipt of this information, the fee will be agreed with officers and confirmed as soon as possible. Our current estimate is £10,000.



## Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Other communications

#### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en\_uk/who-we-are/transparency-report-2020



## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify those charged with governance where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to those charged with governance details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

#### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020.

We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.





## Audit approach update

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

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

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



## Appendix B

# Summary of communications

Date	Nature Nature	Summary
March 2020	Report	The audit planning report, including confirmation of independence, was sent to the Mayor.
28 April 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update and discuss our revised risk assessment for the 2019/20 engagement.
11 May 2020	Meeting	Meeting with the Chief Accountant and Audit Manager to discuss audit progress and findings from scope and strategy phase of the audit planning.
12 May 2020	Report	The updated audit planning report, including confirmation of independence, was sent to the Mayor. The Mayor approved the plan and addendum on 2 June 2020.
9 June 2020	Meeting	Meeting with the Chief Accountant and Audit Manager to discuss protocols and plans for conducting the final accounts audit work.
17 June 2020	Meeting	Meeting with the Chief Accountant and Audit Manager to discuss audit progress and preliminary findings from final accounts audit work.
6 July 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update.
16 July 2020	Meeting	The audit planning report and update was presented to the Audit Panel.
13 October 2020	Meeting	Meeting with the Chief Accountant and Audit Manager to discuss the second phase of final accounts audit work, based on the published draft financial statements.
14 October 2020	Meeting	The partner in charge of the engagement, along with the manager, attended the Audit Panel and provided a verbal update on audit status.
27 October 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to receive an update.
Throughout November 2020	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss audit progress and reporting.
30 November 2020		Presentation of Audit Results Report to the Mayor for consideration prior to approval of the accounts.



### Appendix C

## Required communications with the Mayor

There are certain communications that we must provide to those charged with governance of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Authority of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.  For Greater London Authority Holdings and GLA Land and Property there is an engagement letter dated 1 March 2017 and updated 2 March 2018.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - March 2020 and May 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - March 2020 and May 2020
Significant findings from the audit	<ul> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report - November 2020



		Our Reporting to you
Required communications	What is reported?	When and where
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to those charged with governance include:  A declaration of independence  The identity of each key audit partner  The use of non-member firms or external specialists and confirmation of their independence  The nature and frequency of communications  A description of the scope and timing of the audit  Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits  Materiality  Any going concern issues identified  Any significant deficiencies in internal control identified and whether they have been resolved by management  Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to those charged with governance  Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof  The valuation methods used and any changes to these including first year audits  The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework  The identification of any non-EY component teams used in the group audit  The completeness of documentation and explanations received  Any significant difficulties encountered in the course of the audit  Any significant matters discussed with management  Any other matters considered significant	Audit planning report - March 2020 and May 2020 and Audit results report - November 2020



		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  ► 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	Audit results report - November 2020
Misstatements	<ul> <li>Uncorrected misstatements and their effect on our audit opinion</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Material misstatements corrected by management</li> </ul>	Audit results report - November 2020
Subsequent events	► Enquiry of those charged with governance where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report - November 2020
Fraud	<ul> <li>Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:         <ul> <li>Management;</li> <li>Employees who have significant roles in internal control; or</li> <li>Others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>Any other matters related to fraud, relevant to those charged with governance responsibility.</li> </ul>	Audit results report - November 2020



		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:  ► Non-disclosure by management  ► Inappropriate authorisation and approval of transactions  ► Disagreement over disclosures  ► Non-compliance with laws and regulations  ► Difficulty in identifying the party that ultimately controls the Authority	Audit results report - November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  The principal threats  Safeguards adopted and their effectiveness  An overall assessment of threats and safeguards  Information about the general policies and process within the firm to maintain objectivity and independence  Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.  For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:  Relationships between EY, the company and senior management, its affiliates and its connected parties  Services provided by EY that may reasonably bear on the auditors' objectivity and independence  Related safeguards  Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees  A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit planning report - March 2020 and May 2020 and Audit results report - November 2020



		Our Reporting to you
Required communications	What is reported?	When and where
	<ul> <li>Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>Details of any contingent fee arrangements for non-audit services</li> <li>Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>Those charged with governance should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit results report - November 2020
Consideration of laws and regulations	<ul> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that those charged with governance may be aware of</li> </ul>	Audit results report - November 2020
Significant deficiencies in internal controls identified during the audit	► Significant deficiencies in internal controls identified during the audit.	Audit results report - November 2020

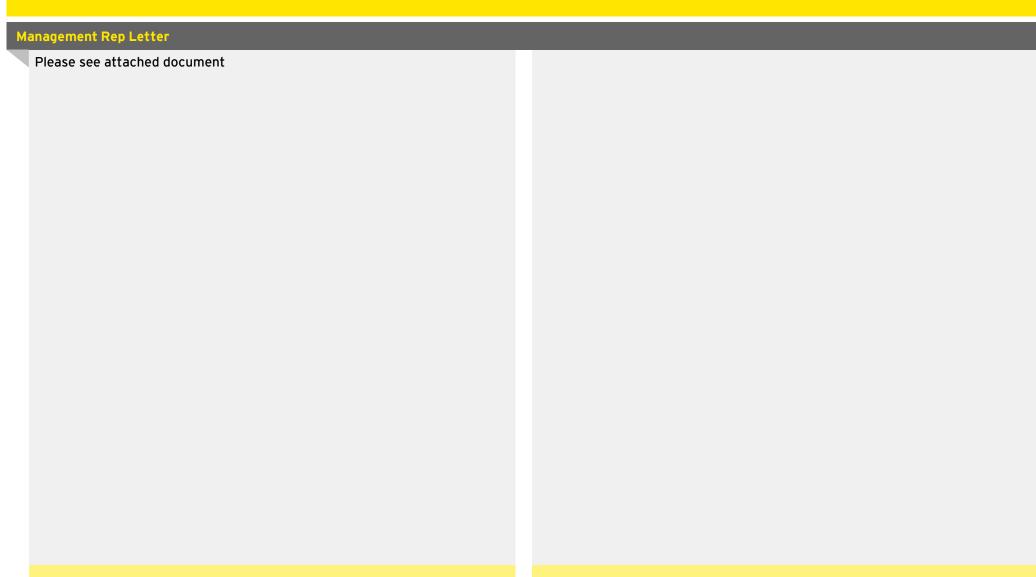


		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Audit planning report - March 2020 and May 2020 and Audit results report - November 2020
Written representations we are requesting from management and/or those charged with governance	Written representations we are requesting from management and/or those charged with governance	Audit results report - November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	► Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - November 2020
Auditors report	► Any circumstances identified that affect the form and content of our auditor's report	Audit results report - November 2020
Fee Reporting	<ul> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit results report - November 2020



## Appendix D

## Management representation letter





## Accounting and regulatory update

### Accounting update

Since the date of our last report, a number of new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on GLA	ıķ
IFRS 7/IFRS 9 - Financial Instruments [hedge accounting]	<ul> <li>Amendments regarding pre-replacement issues in the context of the Interest Rate Benchmark (IBOR) reform</li> </ul>	► Effective for periods beginning on or after 1 January 2020	

### Future accounting developments

Since the date of our last report, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on GLA
IFRS 16	► The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021 The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	As this IFRS has already been implemented for the Authority's subsidiaries in 2019/20, the GLA group is already prepared to gather information for comparatives and ensuring that systems are established for collating the information and reporting as appropriate.



### Regulatory update

Since the date of our last report, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on GLA
Code of Audit Practice 2020	► The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	<ul> <li>The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>Further updates will be provided when possible.</li> </ul>
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul> <li>The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.</li> <li>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</li> </ul>	<ul> <li>Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.</li> <li>Further updates will be provided when possible.</li> </ul>
Independence	The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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