# Greater London Authority
# Audit results report

## Year ended 31 March 2023

**29 January 2024**

Private and Confidential

29 January 2024

Sadiq Khan
The Mayor of London
Kamal Chunchie Way
London
E16 1ZE

Dear Mayor,
2022/23 Audit results report

Please find attached our audit results report which summarises the status of our work in relation to the audit of the Greater London Authority Group for 2022/23.

The audit is designed to express an opinion on the 2022/23 financial statements and address current statutory and regulatory requirements. This report sets out the status of our work related to the areas of audit emphasis, our views on the Greater London Authority's (the Authority's) accounting policies and judgements and material internal control findings. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Mayor, the Audit Panel, other members of the Authority, and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

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

Yours faithfully

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

# Contents

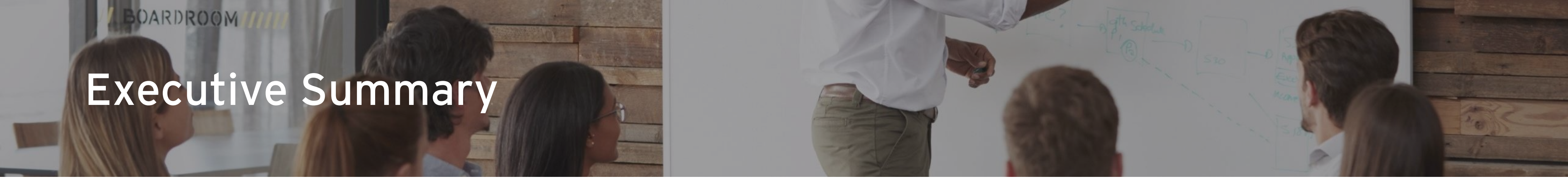


Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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


# 01 Executive Summary




# Executive Summary

## Scope update

In our Audit Planning Report presented at the 20 July 2023 Audit Panel meeting, 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 in risk assessment and materiality**

We updated our planning materiality assessment using the draft 22/23 consolidated financial statements and have also reconsidered our risk assessment.

Due to our assessment of the risk we have set the overall engagement risk for GLA as a close monitoring risk assurance engagement. A close monitoring risk assurance engagement is one in which the engagement:

- Possesses more than higher risk to the member firm. A close-monitoring designation involves more judgment and therefore requires more experience.
- Requires specific procedures to be performed as discussed in the report.

In response to the risk assessment, we have reduced our performance materiality to 50% of overall materiality which is calculated to be £38m (Audit Planning Report – £49m). Our overall materiality assessment is updated to £77m (Audit Planning Report – £65m) and our updated threshold for reporting misstatements is £3.8m (Audit Planning Report – £3.2m).

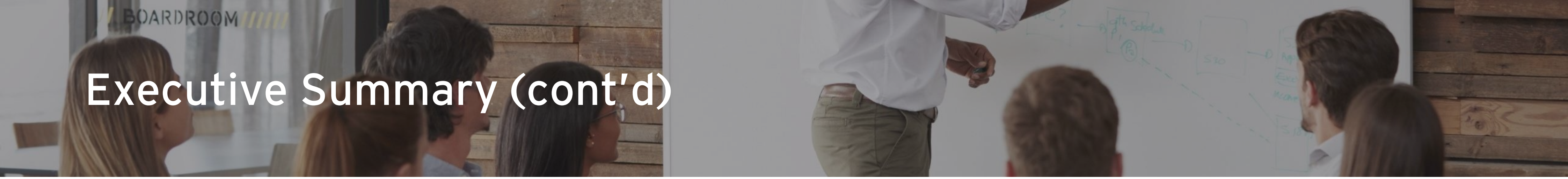
The basis of our assessment has remained consistent with prior years at 1% of gross expenditure including capital additions.

In addition to the reduction in performance materiality as a result of the increased risk assessment, the audit will be subject to an enhanced Audit Quality review. The team will be supported throughout by our Professional Practice Group and our Financial Reporting Group.

Significant risks identified in our Audit Planning Report included the following:

- Misstatements due to fraud or error
- Incorrect classification of capital spend
- E20 Stadium Onerous contract provision
- Risk of error in investment property valuations
- Inappropriate property classification
- Valuation of loan Investments classified as Amortised Cost

There have been no changes to these significant risks.




# Executive Summary (cont'd)

## Value for Money

In the Audit Status Report Update dated 03 October 2023, we reported that we had completed our value for money (VFM) risk assessment and we had identified a risk of significant weakness in respect of the Financial sustainability criteria. We communicated our planned procedures which included assessing the Authority's financial planning and budget monitoring processes. Having completed the planned procedures in these areas we did not identify a significant weakness.

## Audit differences

Six misstatements have been identified in the component financial statements which impact on the group financial statements, two classification misstatements have been identified on consolidation impacting the group accounts and one classification misstatement has been identified which impacts on the GLA single entity financial statements. There has also been one prior period adjustment impacting classification within the group cash flow statement.

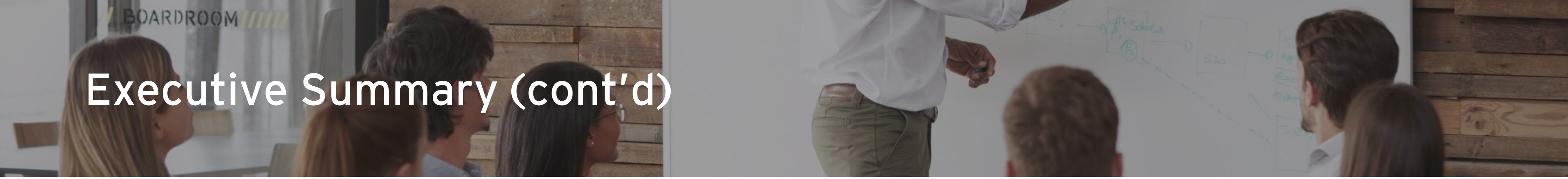
Details of these audit differences can be found at Section 04 of this report.

## Other Reporting Issues

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

We plan to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts after issuing our audit opinion and therefore will certify the completion of the audit at that point.

During the course of the audit we became aware of instances of potential non-compliance with laws and regulations which have required us to completed extended procedures in order to assess the risk to the financial statements, having completed these procedures we are satisfied that they do not lead to a material impact on the financial statements.




# Executive Summary (cont'd)

## Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of the Greater London Authority. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Where applicable we have identified those matters that we consider to be key audit matters. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit. In accordance with ISA (UK) 701 key audit matters are included in our auditor's report.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

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

## 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 are unknown to you.

We have highlighted areas for improvement in the form of recommendations at section 07 of this report.

## Independence

Please refer to Section 08 for our update on Independence.

# 02 Areas of Audit Focus

# Areas of Audit Focus

## Misstatements due to fraud or error

**Applicable to: GLA Group and GLA Singe Entity**

Significant Risk

### What is the risk, and the key judgements and estimates?

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

As identified in ISA (UK) 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 are our conclusions?

We have not identified any instances of inappropriate judgements being applied in the preparation of the financial statements.

We have completed our work on journals testing and we have not identified any misstatements.

We identified the transfer of cash to London Treasury Liquidity Fund LP (LTLF) along with the change in classification of the loan investment in LTLF to be significant unusual transactions and have performed additional procedures over these transactions.

Based on procedures performed, we have not identified any material weaknesses in controls or evidence of material management override.

### Our response to the key areas of challenge and professional judgement

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

- Inquired of management about risks of fraud and the controls put in place to address those risk;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Evaluated the effectiveness of management's controls designed to address the risk of fraud and the oversight given by those charged with governance of management's processes over fraud ;
- Determined an appropriate strategy to address those identified risks of fraud as detailed on the following pages in this report; and
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
  - testing of journal entries and other adjustments in the preparation of the financial statements;
  - assessing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.

# Areas of Audit Focus (cont'd)

## Incorrect classification of capital spend

**Applicable to: GLA Group and GLA Singe Entity**

Significant Risk

### What is the risk, and the key judgements and estimates?

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.

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

The total value of revenue expenditure funded from capital during 2022/23 is £2.66 billion and is therefore a highly material balance within the financial statements.

### What are our conclusions?

Our testing of revenue expenditure financed from capital under statute has not identified any material misstatements.

Our testing of the related journal entries has not identified any material misstatements.

### Our response to the key areas of challenge and professional judgement

In our professional judgement, the following were the key areas of challenge related to responding to this risk.

Revenue expenditure financed from capital under statute (REFCUS):

- We tested a sample of REFCUS transactions for appropriate classification and valuation, challenging where the classification was based on judgement;
- Confirmed the correctness of any reversal in the Movement in Reserves Statement, from the General Fund balance to the Capital Adjustment Account (or the capital grants unapplied account if the grant has not yet been applied); and
- In our journal testing we reviewed the other side of all journals posted to REFCUS to assess whether accounting entries are appropriate and are not intended to manipulate the year-end outturn position.

# Areas of Audit Focus (cont'd)

## E20 Onerous Contract Provision

**Applicable to: GLA Group**

Key Audit Matter

Significant Risk

### What is the risk?

The Greater London Authority Group consolidates E20 Stadium LLP's financial statements into its accounts.

When the E20 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 at a value of £185.8m as at 31 March 2023. This provision is updated annually based on judgements made by management in the E20 business plan. 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 up to the end of the WHU contract) 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 calculation based on the revised IAS 37 as value of 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 management therefore this has been reviewed and challenged in accordance with IAS 37.

(Continued on the next page)

### Our response to the key areas of challenge and professional judgement

To address the risks, we have:

- Reviewed the inputs into the provision calculation, most notably, the E20 5-year business plan (extrapolated to 10 years) - tested key elements back to source documentation and identified and challenged key judgements;
- Assessed the upsides and downsides in this forecast, as well as the known changes that have occurred since the forecast was produced and compared the inputs used in the calculation to the prior year actuals;
- Reviewed and reassessed the key contracts to confirm that these were still onerous, understood and documented if there have been any changes, and the impact on the business plan. We also read board minutes to see if there were any changes that have not been disclosed. We ensured that the key contracts were reflected appropriately in the business plan and provision calculation;
- Challenged the basis for the calculation (business plan) and specifically reviewed and ensured that the costs of the contract included in determining the onerous contract provision should be direct costs only or the net cost of honouring or delivering the contracts as per the amendments to IAS 37 (Onerous contracts - Cost of Fulfilling a contract);
- Identified and challenged the key judgments and assumptions used in the provision calculation (discount rates, period of forecast, income streams, allocation basis of the indirect costs to the onerous contracts, the assumption on the reduction of costs post the end of the UKA contract);
- Engaged our internal specialists for support in assessing the appropriateness of the valuation of naming rights included in the calculation;
- Used sensitivity analysis to test key assumptions and sceptically challenged whether the provision is reasonable on that basis;
- Ensured the consideration of unwinding of the discount relating to the onerous contract provision was accounted for correctly.

# Areas of Audit Focus (cont'd)

## What are our conclusions?

- We assessed the completeness of costs and revenues captured and challenged the appropriateness of their inclusion. We concluded that contract costs were the net cost of delivering the contracts as per IAS 37;
- We have concluded that the inputs to the calculations were appropriate after reviewing it against the interpretation of the IAS 37;
- We challenged:
  - the discount rate which was based on the government gilt rate as at 31st March 2023 and the period of forecast (discounted up to the end of WHU contract) and determined that the rate used was appropriate;
  - the allocation of costs and revenues between contracts related to the provision (UKA and WHU);
  - the split of costs and revenues between pre- and post-UKA contract end, given the difference in contract length and that certain costs and revenues decrease after the UKA contract ends.
- We used sensitivity analysis to test key assumptions and came up with a most likely outcome within a range of reasonable valuations of the onerous contract provision. We have concluded that the onerous contract provision of £185.8m lies within a reasonable range of valuations. We note that the provision is an estimate and highly dependent on the key assumptions.
- We also challenged the presentation of the movements in the provision including the unwinding of discounts in the financial statements.
- We also ensured appropriate disclosure within the financial statements.

Having completed our procedure over the onerous contract provision, we have not identified any material misstatements.

# Areas of Audit Focus (cont'd)

## Risk of error in investment property valuations

**Applicable to: GLA Group**

Key Audit Matter

Significant Risk

### What is the risk, and the key judgements and estimates?

GLA Group balance sheet consolidates material investment property assets held in GLA Land and Property Ltd (GLAP) and London Legacy Development Corporation (LLDC).

The valuations are derived based on complex and subjective assumptions and, considering the size of the portfolios, a small change in these assumptions can have a material impact on the group balance sheet.

The total value of investment property held by the Group as at 31 March 2023 is £186.4m.

### Our response to the key areas of challenge and professional judgement

For GLA group, we have:

- Assessed the expertise and independence of management's valuation specialist(s) by confirming their qualifications, independence, experience in the sector and the terms of their engagement with the GLA or subsidiary;
- Evaluated the valuations methodology applied to ensure assets are valued in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting, and validate the assumptions contained in the valuations with reference to source documentation;
- Engaged our EY Real Estate specialists to perform a review of assumptions for a sample of assets and assess whether management's valuation falls within an acceptable range;
- Identified whether key assumptions or the valuation methodology of assets have changed and understand the rationale;
- Reviewed and tested the accounting entries and disclosures made within the Group financial statements.

### What are our conclusions?

The work performed in relation to the valuation of investment property held within LLDC found that the London Aquatic Centre, Copper Box Arena and Eastwick and Sweetwater valuations were higher than considered supportable by our EY Real Estate specialists. These differences totalled £8.74m and result in an overvaluation of Investment Property. These have been raised as judgmental differences, which will be adjusted for in the Group financial statements.

Our work performed in relation to investment property held within GLAP involved the use of our EY Real Estate specialists for a sample of 2 assets as well as additional assets tested by the audit team. In our EY Real Estate's specialist review of assets held by GLAP we identified that the Albert Island asset was incorrectly valued at Market Value instead of Fair Value resulting in a higher industrial land value. The impact of this is an overstatement of £11.8m to the GLA Group investment property balance. This will be corrected in the final group financial statements.

In addition to the properties tested by our EY Real Estate specialists, the audit team also tested a sample of individual properties held within LLDC and GLAP. This included challenging the inputs and assumptions in the valuation calculations and verifying these to supporting evidence. No additional material differences were identified from this work.

# Areas of Audit Focus (cont'd)

## Incorrect property classification

### Applicable to: GLA Group

Significant Risk

### What is the risk, and the key judgements and estimates?

The GLA Group balance sheet contains properties held within GLAP and LLDC that are classified as Investment Property and Inventory.

The classification of these properties determines the valuation basis and therefore an incorrect classification can lead to a misstatement in the valuation.

Considering the unique nature of these assets, and the purpose for which they are held, there is a risk that property classifications, and their subsequent valuations, are not updated when trigger events (events that result in a change in classification) occur.

### What are our conclusions?

For all assets within our sample we challenged the purpose for which the asset was held to assess whether the property was correctly classified as inventory or investment property in line with the requirements of IAS 2 and IAS 40.

For assets held by LLDC that had transferred between inventory in investment property during the year we challenged whether trigger events for a change in classification had been met and corroborated management's rationale to supporting evidence.

Having completed our work we did not identify any instances of incorrect classification of assets held by GLA Group.

### Our response to the key areas of challenge and professional judgement

To address this risk, we have:

- Understood and assessed the nature, purpose and underlying funding arrangements of assets within the portfolio;
- Challenged the classification of assets for which changes have occurred in year which could constitute trigger events; and
- Reviewed and ensured appropriate disclosure of the key judgements within the GLA Group financial statements.

# Areas of Audit Focus (cont'd)

## Valuation of loan Investments classified as amortised cost

**Applicable to: GLA Group**

Key Audit Matter | Significant Risk

### What is the risk, and the key judgements and estimates?

GLAP holds a portfolio of loan investments in property developers as part of a wider strategy to assist in achieving the Mayor's affordable housing objectives. This portfolio is material to the GLA Group financial statements.

Under IFRS 9 management are required to recognise expected credit losses on loan investments classified as Amortised Cost. The extent of loss recognised is subjective and, as a result of the wider economic environment creating challenges for property developers, in 2022/23 we consider there to be a risk that expected credit losses could be understated.

### Our response to the key areas of challenge and professional judgement

To address this risk, we have:

- Assessed management's rationale for classification of investments as either Amortised Cost of Fair Value Through Profit and Loss;
- Assessed the work undertaken by management's specialist to ensure that the information used to inform the IFRS 9 impairment review is reliable and accurate;
- Engaged our EY Complex Securities specialists, to perform a review the shadow credit ratings and probability of default calculated for of a sample of loan investments in accordance with IFRS 9 and remodel the expected credit losses to compare with those in management specialist's report for any material differences;
- Ensured that the loss given default used in the calculation is line with industry trends and market research.
- Performed sensitivity analyses to ensure that management estimates are reliable and not materially misstated.
- Ensured that the accounting entries and disclosures associated with the loan investments are appropriate the Group financial statements.

### What are our conclusions?

In our Audit Planning Report we communicated that we would engage our EY Real Estate specialists to perform a review of the collateral valuation for a sample of loans secured by assets to assess for indicators of impairment. However on initial review of the calculations for the expected credit loss we have altered our procedures to focus on the loss given default assumptions which have been adjusted in 2022/23 to align with market standards. As a result we have engaged our EY Complex Securities specialist team to perform a review of the shadow credit ratings and probability of default calculated for of a sample of loan investments in accordance with IFRS 9 and remodel the expected credit losses to compare with those in management specialist's report for any material differences.

Having completed this work we identified one factual misstatement whereby management's specialist had used the incorrect credit rating to calculate the probability of default. This was found to be a clerical error and isolated to one loan. This resulted in a £5.2m overstatement to the loan valuation held in the group financial statements. This will be corrected in the final group financial statements.

We also identified that, on consolidation in the GLA group accounts, the Expected Credit Loss charge in relation to GLAP loans from GLA had not been eliminated. This has been corrected in the final accounts and results in a a reduction of £36.8m in the impairment of loan investments in the Group CIES and a corresponding increase of £5.9m to Group short term debtors and an increase of £30.8m to Group long term debtors.

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

**What is the risk/area of focus, and the key judgements and estimates?**

**GLA Group Going Concern - Key Audit Matter**

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 states that an Authority's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to ensure appropriate disclosure within the financial statements of the risks faced by the financial authority and the key assumptions in determining that there is no material uncertainty.

**Our response: Key areas of challenge and professional judgement**

Management prepared a going concern assessment which forms the basis of the disclosure in the financial statements. In their assessment management has modelled a prudent central case, upon which the budget is based, and an optimistic case. As the audit team, we undertook our own stress testing in order to consider the impact of a worst-case scenario on both the reserves and cash position.

We performed the following procedures:

- We read the Narrative Report and Financial Statement disclosures in relation to the financial statements being prepared on a going concern basis to ensure that they were consistent with our knowledge of the Group and Authority's financial position.
- We reviewed and assessed the information used in the going concern assessment in the financial statements for consistency with management reporting, and information obtained through auditing other areas of the business, obtained an understanding of the business planning process, and challenged the underlying assumptions.
- We assessed the levels of current and forecast borrowing against the Prudential Borrowing Limit and confirmed that the Authority is within that limit and has no plans for further borrowing within the going concern period.
- We compared the actual cash position to the prior year forecast cash position to assess the accuracy of management's cashflow forecasting.
- We undertook reverse stress testing on management's base case scenario to understand the potential circumstances that could result in reserve shortages within the going concern period. This included assuming high levels of inflation and a reduction in the council tax base. In addition, we undertook reverse stress testing on management's cashflow forecast to assess the impact on liquidity and the need to borrow. This included assuming use of the facility agreement made available to TfL and non-repayment of loans from subsidiaries.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period to 31 March 2025.

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

| What is the risk/area of focus, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|
| **Inventory Valuation**<br><br>The GLA Group balance sheet contains properties held within GLAP and LLDC that are classified Inventory.<br><br>Under IAS 2 inventories are valued at the lower of cost and net realisable value. Determining the net realisable value involves estimation techniques and assumptions which have a material impact on the valuation of the assets.<br><br>In the 2022/23 Group financial statements the inventory balance is £529.9m. | We have:<br><br>▸ Assessed the expertise and independence of management's valuation specialist(s) by confirming their qualifications, independence, experience in the sector and the terms of their engagement with GLAP and LLDC;<br><br>▸ Engaged our EY Real Estate team to perform a review of a sample of assets and asses whether the valuations used by management are supportable.<br><br>▸ Assessed whether assets have been appropriately recorded at the lower of cost and net realisable value in accordance with IAS 2 and that the accounting entries in the financial statements are appropriate.<br><br>our work identified that LLDC properties that transferred in year from investment property to inventory had been transferred at an incorrect value resulting in an understatement of inventory of £3.4m with a corresponding overstatement to investment property. |
| **Business rates appeals provision**<br><br>The business rates appeals provision is a highly material estimate at £396.3m as at 31 March 2023. GLA's share of the business rates appeals provision is calculated as 37% of the total appeals provision for each of the 33 London billing authorities. In estimating their provision each London billing authority has regard to the settlement rates of historical appeals and the level of challenges unresolved at the financial year end as well as risks of future challenges which have a backdated impact including those arising from material changes of circumstances. | We have:<br><br>▸ Reviewed the steps taken by the Authority to ensure that the provision is reasonable and compliant with IAS 37;<br><br>▸ Agreed the provision to appropriate underlying information, specifically business rates returns and financial statements; and<br><br>▸ Reviewed the movement in provision made by individual London boroughs and challenge any movements outside of our expectations.<br><br>We have completed our work in relation to this provision and have not identified any material misstatements. Following the production of the draft financial statements, NNDR3 returns for 2022/23 were updated by some London Boroughs. Revised returns result in an decrease of £10.0m to the NDR appeals provision. Management has adjusted the financial statements for these revised NNDR3 returns. |

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

| What is the risk/area of focus, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|
| **East Bank development provision**<br><br>The GLA Group balance sheet contains an East Bank grant provision recognised by LLDC on the basis that management has determined that a constructive obligation exists under the agreements with the respective East Bank partners to contribute towards the costs of their buildings.<br><br>LLDC has concluded that its contributions towards the cost of the cultural and education buildings (University of the Arts London, V&A, Sadler's Wells and BBC) and the retail units at Stratford Waterfront require a provision to be established from the date that the agreements for lease were signed (all pre-31 March 2020). The provision is based on LLDC's best estimate of the expenditure required to settle the present obligation at the end of the reporting period which could be subject to changes in assumptions over time. As at the 31 March 2023 this provision totals £244.3m. | We have:<br><br>‣ Reviewed and challenged management's calculation of the provision;<br><br>‣ Ensured that the basis used for the provision is properly supported by evidence;<br><br>‣ Reviewed the costs incurred and charged against the provision during the year for accuracy; and<br><br>‣ Reviewed and tested the accounting entries and disclosures made within the financial statements.<br><br>We have completed our work in relation to this provision and have not identified any material misstatements. |
| **Valuation of investments held in Funding London entities**<br><br>The GLA Group consolidates investments held by London Co-Investment Fund LLP (LCIF), Greater London Investment Fund Limited (GLIF) and SME Wholesale Finance Limited (SMEWFL) otherwise referred to as 'Funding London entities'. The entities are established to provide loan and equity finance to small and medium sized enterprises across London. Some of these valuations are performed by fund managers and are based on subjective assumptions and the nature of the companies being invested in means that the investments could be subject to impairment.<br><br>The total value of these investments recognised in the 2022/23 financial statements is £185.3m. | We have:<br><br>‣ Understood the basis on which investments are valued and considered whether that basis is appropriate;<br><br>‣ Obtained third party confirmations from fund managers for a sample of investments;<br><br>‣ Recalculated the valuation where recent share sales is used as a proxy for the valuation and obtained evidence from Companies House to support the share price;<br><br>‣ For investments not measured by reference to share prices, we have challenged the basis of valuation and have used EY specialists to review the underlying assumptions; and<br><br>‣ Performed credit check reviews to assess for indicators of impairment.<br><br>Having completed this work we did not identify and material misstatements. |

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

### What is the risk/area of focus, and the key judgements and estimates?

**Pension Valuation**

Pension valuation is a material and sensitive balance driven by complex assumptions. The information disclosed is based on the IAS 19 report issued by the actuaries to the administering body; the London Pensions Fund Authority. In 2022/23 the GLA's share of the scheme is in a surplus position for the first time. Under IAS 19, when an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:

a) the surplus in the defined benefit plan; and

b) the asset ceiling, where the asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Determining the value of the asset ceiling is a complex and subjective calculation which is assessed based on the underlying deeds of the scheme. The complexity of the underlying deeds means that interpretation can be subjective.

In addition to the procedures described above, the Local Government Pension Scheme has undergone a triennial valuation as at the 31 March 2022, with the impact of this revaluation impacting the liability as at the 31 March 2023 for the first year. In a triennial valuation year we request that the auditor of the pension fund performs additional procedures over the source membership data used in the triennial valuation.

### Our response: Key areas of challenge and professional judgement

We have:

- Liaised with the auditors of the administering authority (London Pension Fund Authority), to obtain assurances over the information supplied to the actuary in relation to the Greater London Authority Group including assurances over membership data for the triennial valuation.
- Assessed the work of the Pension Fund actuary (Barnett Waddingham LLP), including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries, commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY pensions team;
- Assessed whether the pension surplus of £27m has been recognised in accordance with IAS 19 and our understanding of the Local Government Pension Scheme deeds including consideration of key judgements including whether the authority has an unconditional right to a refund;
- Reviewed and tested the accounting entries and disclosures made within the Authority and the Group financial statements in relation to IAS19; and
- Engaged our EY pensions specialists to recalculate the liability based on the assumptions and data in the IAS 19 report to confirm accuracy.

Having completed this work we have not identified any material misstatements.

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

| What is the risk/area of focus, and the key judgements and estimates? | Our response: Key areas of challenge and professional judgement |
|---|---|
| **Sufficiency of allowance for expected credit losses**<br><br>The Authority recognises expected credit losses on all of its financial assets held at Amortised Cost and at Fair Value through Other Comprehensive Income. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.<br><br>For the year ended 31 March 2023 the Authority has recognised an expected credit loss of £43.9m on its long term debtors balance. | We have:<br><br>‣ Reviewed a sample of loan investments to determine whether the valuation has been appropriately recorded, any credit losses correctly recognised and ensured that the accounting is compliant with the requirements of IFRS 9; and<br>‣ We have engaged our EY Complex Securities specialists to assess the appropriateness of the assumptions used in the calculation for a sample of loans.<br><br>Having completed this work we have not identified any material misstatements. |
| **Classification of cash and cash equivalents**<br><br>In 2022/23 the Authority has reclassified its loan investment in its subsidiary London Treasury Liquidity Fund LP from long term investments to cash and cash equivalents.<br><br>The loan investment is material at £2.7 billion and this is considered to be an unusual transaction. There is a risk that the classification is incorrect and the transaction does not meet the definition of cash and cash equivalents under IAS 7. | We have:<br><br>‣ Challenged management's assessment for the rationale behind the change in classification and assessed whether the requirements of IAS 7 have been met and that the Authority can evidence that the investments are held for operational purposes, are short term, highly liquid, readily convertible to known amounts of cash and subject to insignificant risk of changes in value;<br>‣ Assessed and challenged whether or not this gives rise to a prior period misstatement.<br><br>We have completed this work and agree with management's assessment. We have not identified any misstatements in the current or prior period. |
| **Valuation of Long Term Debtors classified as Fair Value through Profit and Loss**<br><br>The Authority holds a material portfolio of long-term debts with various counterparties, including subsidiaries and organisations outside of the GLA Group. Debtors measured at FVTPL are carried at fair value. Where quoted market prices are not available, valuation techniques are used to determine the fair value. These include models using both observable and unobservable market inputs. | We have:<br><br>‣ Reviewed a sample of long term debtors to determine whether the valuation has been appropriately recorded and assessed whether classification as FVTPL continues to remain appropriate;<br>‣ Considered the work performed by the Authority's specialist who are engaged to value long term debtors measured at FVTPL including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;<br>‣ Engaged our Complex Securities specialists , to review the valuation of a sample of loans in accordance with IFRS 13.<br><br>Having completed this work we have not identified any material misstatements. |

# Areas of Audit Focus (cont'd)

## Other areas of audit focus

**What is the risk/area of focus, and the key judgements and estimates?**

**National Lottery Queen Elizabeth Olympic Park arrangements**

We understand that the National Lottery have disclosed a contingent asset in their accounts that explains that they are entitled to receive, from the GLA, a share of receipts from the sale of land on the Queen Elizabeth Olympic Park in return for their contribution of £675 million to the funding of the London 2012 Olympic Games. There is a risk that a liability exists which should be recognised, or disclosed, within the GLA's financial statements.

**Our response: Key areas of challenge and professional judgement**

On 29 March 2012 the GLA entered into an agreement with the Department for Culture, Media and Sport (DCMS) to repay a portion of net proceeds from the sale of individual plots of land owned by LLDC, that are clearly identified by schedule as within the scope of the agreement. For the year-ended 31 March 2023, management has assessed that the arrangement meets the definition of a contingent liability under IAS 37.

We have reviewed management's assessment and corroborated this to supporting evidence. Having reviewed management's assessment and the underlying agreement we agree with management's assessment and a contingent liability disclosure will be included in the final 22/23 GLA accounts.

# Non-Compliance with Laws and Regulations (NOCLAR)

### Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

## Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

## Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

## Examples of Non-Compliance with Laws and Regulations (NOCLAR)

| Matter | Implication |
|---|---|
| Suspected or known fraud or bribery | Potential fraud/breach of anti-bribery legislation |
| Health and Safety incident | Potential breach of section 2 of the Health and Safety at Work Act 1974 |
| Payment of an unlawful dividend | Potential breach of Companies Act 2006 |
| Loss of personal data | Potential GDPR breach |
| Allegation of discrimination in dismissal | Potential non-compliance with employment laws |
| HMRC or other regulatory investigation | Suspicion of non-compliance with laws/regulations |
| Deliberate journal mis-posting or allegations of financial impropriety | Potential fraud / breach of Companies Act 2006 |
| Transacting business with sanctioned individuals | Potential breach of sanctions regulations |

# Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

**What are the implications of NOCLAR matters arising?**

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

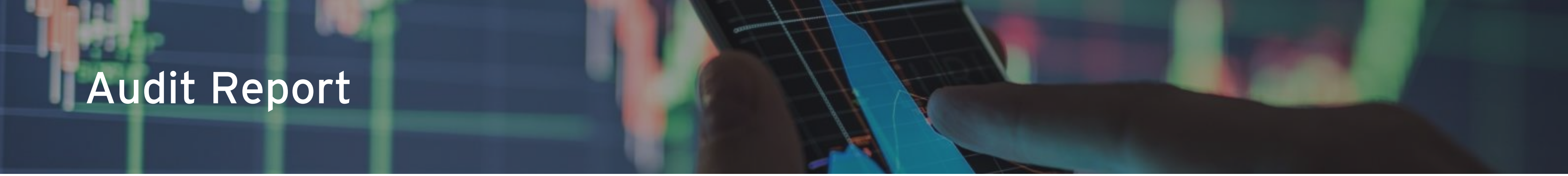
In 2022/23 we became aware of three instances of potential non-compliance with laws and regulations which have required us to complete extended procedures in order to assess the risk to the financial statements. Having completed those procedures we are satisfied that they do not lead to a material impact on the financial statements.

| Management response: | Audit response: |
|---|---|
| Timely communication of the matter to auditors (within a couple of days) | Initial assessment of the NOCLAR matter and its potential impact |
| Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both | Initial consultation with risk team to determine responsive procedures and the involvement of specialists |
| Scope the investigation, in discussion with the auditors | Understand and agree scope of management's investigation with support from specialists as needed |
| Evaluate findings and agree next steps | Evaluate findings and undertake appropriate audit procedures |
| Determine effect on financial statements including disclosures | Determine audit related impact including accounting and disclosure and audit opinion implications |
| Prepare a paper, summarising the outcome of the investigation and management's conclusions | Document and consult on the outcome of our procedures |
| Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required. | Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators |

**Key Reminders:**

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

# 03 Audit Report



# Audit Report

## Draft audit report

Due to the length of the long form audit report, we shall send the draft wording under separate cover at the appropriate time when we have sufficiently completed our audit procedures.

# 04 Audit Differences

# Audit Differences

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

## Summary of adjusted differences

Errors Identified within GLAP financial statements that impact on the GLA Consolidated Group accounts:

- **Loan Investments** - We identified one factual misstatement whereby management’s specialist had used the incorrect credit rating to calculate the probability of default. This was found to be a clerical error and isolated to one loan and we did not identify any issues with the remaining sample tested. This resulted in a £5.2m overstatement to the loan valuation with a corresponding understatement to expenditure in the group financial statements.
- **Investment Property** - In our EY Real Estate’s specialist review of assets held by GLAP we identified that the Albert Island asset was incorrectly valued at Market Value instead of Fair Value resulting in a higher industrial land value. The impact of this is an overstatement of £11.8m to the GLA Group investment property balance.

Errors Identified within LLDC financial statements that impact on the GLA Consolidated Group accounts:

- **Investment property** - The work performed in relation to the valuation of investment property held within LLDC found that the London Aquatic Centre, Copper Box Arena and Eastwick and Sweetwater valuations were higher than considered supportable by our EY Real Estate specialists due to differences over key assumptions including yield and market rent. These differences totalled £8.74m and result in an overvaluation of Investment Property.
- **Debtors** - Our sample testing identified one transaction for £4.8m that had been incorrectly recognised as deferred income but had not been received before the year-end and the service had not been delivered. This factual misstatement results in an overstatement to deferred income and an overstatement to short term debtors.
- **Asset transfers –** our work identified that the properties transferred in year from investment property to inventory had been transferred at an incorrect value resulting in an understatement of inventory of £3.4m with a corresponding overstatement to investment property.
- **Tax** – The draft accounts included a draft deferred tax net asset figure amounting to £7.36m and corporation tax liability figure amounting to £3.98m. These figures were updated after the 2022/23 draft accounts were issued.
- **Cash flow statement** - Reclassifications adjustments between investing activities and operating activities in the cash flows notes and statements have been identified in relation to lines ‘Inventory purchases not set against provision (East Bank)’ (2023 -£117,488k and 2022-£90,007k) and ‘Inventory purchases (Residential)’ (2023 - £4,288k, 2022 - £17,605k). These two lines have been moved from investing to operating activities as these were cash payments for inventory (development of property) which are for goods/trading purposes. The prior year financial statements have been restated as a result of this reclassification and the appropriate disclosures included in the financial statements. There is no impact on the CIES or the balance sheet as a result of this adjustment.

**Errors Identified on consolidation that impact on the GLA Consolidated Group accounts:**

- **Income reclassification** – Income of £79.9m in LTLF was reclassified from net cost of services income to financing and investment income in the CIES to reflect that this income is in relation to return on investments.
- **Expected Credit Loss intercompany elimination** – Elimination of intercompany expected credit loss adjustments on GLAP loans from GLA in the group accounts leading to a reduction of £36.8m in the impairment of loan investments in the Group CIES and a corresponding increase to Group Debtors.
- **LTLF classification** - £702m of assets within LTLF accounts have been reclassified from short term investments to cash and cash equivalents to align with the reporting in LTLF’s accounts and since these assets meet the criteria of cash equivalents under IAS 7.

Continued on the next page.

# Audit Differences

## Summary of adjusted differences continued.

<u>**Errors Identified within GLA single entity financial statements:**</u>

- **Debtors classification** – we identified that a £70m loan to GLAP had been incorrectly classified as long term which should have been classified as short term.

## Summary of unadjusted differences

We have not identified any audit differences that management have chosen not to adjust.

## Disclosure differences

A number of disclosure differences impacting the Authority and Group financial statements have been identified through the course of our audit, all of which have been corrected by management. These include:

- Addition of an expected credit loss reconciliation disclosure which details the movements in the expected credit loss charge in year for both the Group and Authority financial statements;
- Addition of a contingent liability disclosure in relation to Greenwich Peninsula sharing of disposal proceeds;
- Addition of a contingent liability disclosure in relation to National Lottery arrangements in sharing of disposal proceeds;
- Enhanced disclosures around the transfer of assets to LTLF in year.

# 05 Value for Money

# Value for Money

## The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment and status of our work

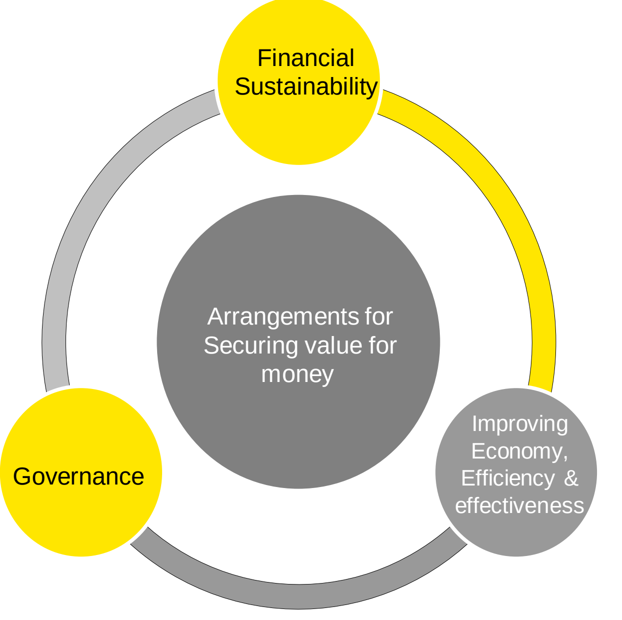
We are required to consider whether the Authority has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Authority's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Authority's arrangements against three reporting criteria:

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

We have completed our detailed VFM work and identified one risk of significant weakness as documented on the next page.



# Value for Money

## Risk of significant weakness in VFM arrangements

### What is the risk of significant weakness?

**Finance arrangements and sustainability**

The future financial position of the GLA remains uncertain for 2023/24 onwards. The GLA has a clear strategic direction to deliver efficiency and value through the collaboration for all organisations in the GLA Group. However, there is still funding uncertainty for 2023/24 and 2024/25 and the long-term funding position beyond April 2025 is particularly uncertain due to the further delay in the implementation of planned reforms to local government finance.

This combined with the impact on the council tax and business rates taxbase, arising from the impact of Covid-19 pandemic and the cost of living crisis makes forward planning with a degree of certainty challenging.

### What arrangements did this impact?

**Financial Sustainability:**

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

### What shall we do?

**Our approach focused on:**

- What approach the Authority had to medium term financial planning during 2022/23, and how assumptions were used in the preparation of the 2023/24 budget and Medium Term Financial Strategy;
- What the arrangements are to assess and assure that the available reserves and cash balances are adequate to support the Medium Term Financial Strategy and that they are used in a sustainable manner.

## Findings

The GLA has a Budget & Performance Committee which is responsible for reviewing and examining the budgets and performance of the GLA and functional bodies.

Based on our review of the Authority's minutes, documents and reports presented at relevant Committee meetings, the Authority has the arrangements in place that we would expect to enable it to carry out its financial plan and manage its resources effectively. This ensures the Authority can continue to deliver its services. The GLA set a budget which was designed to facilitate delivery of the Mayor's manifesto; it was approved prior to the start of 2022/23.

The budget covered the years 2022/23 to 2025/26 and was based on a core central scenario. The core central scenario prudently assumed the government would provide an extra 0.5 per cent uplift in business rates funding for 2023-24 and then revert to a 2 per cent uplift thereafter. The council tax base increase is modelled to increase by 1.5 per cent each year. Given the level of uncertainty, an 'optimistic' scenario was modelled to understand the sensitivity of possible outcomes.

The Mayoral Guidance for 2022/23 gave criteria on the utilisation of reserves including specifying expected movements in reserves during the medium term. For 2023/24, the Authority estimates it will decrease its total reserves by £219.9m, and this is driven largely by a decrease to the transport services funding reserve to support TfL through their pandemic recovery.

Review of the cash flow balances for GLA indicates they remain in a strong positive position throughout 2023/24 and are expected to do so into 2024/25 also. Cash balances are forecast to remain consistently around the £2.7 billion level over this period and the assumptions used in the cash flow forecast are consistent with budget modelling. Our comparison of forecasts to actuals found management's forecasting to be materially accurate. The cash flow forecast is updated periodically to support management decisions and ensure that GLA can meet their liabilities as they fall due. We did not identify any immediate risks that would have a negative impact on the cash balances of GLA for the next financial year.

Having completed our planned procedures ,and obtained evidence to support the arrangements in place, we have not identified a significant weakness in the Authority's arrangements to secure value for money. Our opinion is not modified in respect of this matter.

# 06 Other Reporting Issues

# Other reporting issue

## 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 Greater London Authority Statement of Accounts 2022/23 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 Greater London Authority Statement of Accounts 2022/23 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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete.

## 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.

# Other reporting issue

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no other matters to report.

# Other Reporting Issues

## ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
    - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

| Audit Procedures | Audit findings and conclusions |
| --- | --- |
| We performed the following procedures:<br><br>We obtained an understanding of the IT processes related to the IT applications of the Authority. The Authority has three relevant IT applications for the purposes of ISA 315 risk assessment.<br>• We performed procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.<br>• When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls, we performed additional procedures such as system walk- throughs.<br>• We reviewed the following processes for both relevant IT applications:<br>    • Manage vendor supplier changes<br>    • Manage security settings<br>    • Manage user access | No significant issues were identified in our review of the various processes, including the design and implementation effectiveness of relevant controls around the financial statement close process. We have not tested the operation of any controls through this review. |

# 07 Assessment of Control Environment

# Assessment of Control Environment

## Financial Controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 did however note in our testing of leavers that there were two employees selected in our sample for whom evidence to support the leave date could not be provided and we were told that this was due to the change in payroll system that occurred during the year. We recommend that management retains payroll records for employees including when system changes occurs.

As described at section 04 of this report we did also identify a prior period adjustment in relation to classification of items in the group cash flow statement. There was a weakness in the controls in place for ensuring compliance with requirements relating to the cash flow statements and disclosure notes within the group accounts. We recommend that a robust review is performed in the financial statements and disclosure notes, including challenge of reporting from subsidiaries, to ensure compliance with the requirements of the CIFPA code.

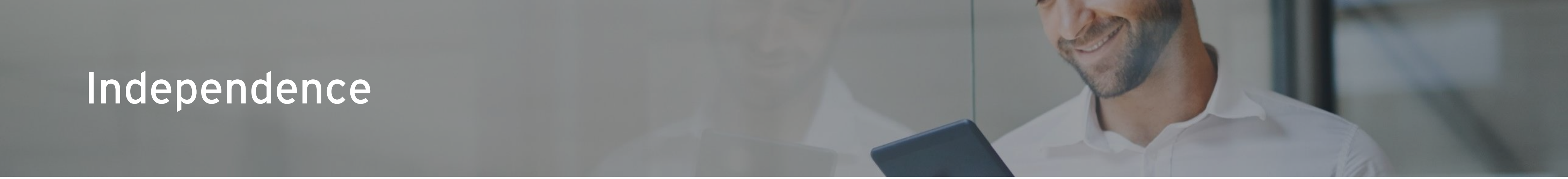
# Assessment of Control Environment

## Recommendations

We bring to the attention of the Mayor the following recommendations which we raise in relation to the financial statements. Our view is that the following recommendations will improve the understandability of the financial statements for users.

| Improvement Area | Recommendation | Details |
|---|---|---|
| Narrative Statement | We recommend that the Narrative Statement is updated so that the financial performance discussed directly links to the financial statements (including primary statements) and explains key movements. | Currently the Narrative statement discusses the outturn position but this does not tie to the financial statements. Narrative reporting should focus on describing and analysing movement in the financial statements and segmental analysis. |
| Understandability | We recommend that wording is revisited and simplified in a number of areas to ensure that the accounts are understandable to a member of the public with limited understanding of taxation arrangements. | Areas that we suggest are revisited:<br>• Business rates and council tax wording in the narrative statement<br>• Business rates and council tax accounting policies<br>• Cross rail business rates supplement accounting policy |
| Estimate disclosures | We recommend that estimates disclosures are enhanced in line with the requirements of IAS 1 to include sensitivity analysis and a range of values based on differing assumptions. | Currently the estimate disclosures provide high level analysis over ranges in estimate values. This should be improved to show the £ impact of a change in specific assumptions for those estimates disclosed. |
| Going Concern | We recommend that the Going Concern disclosure is rewritten to focus on the Group position and Group risks and is forward looking. | Currently the disclosure focusses on different risks within subsidiaries rather than framing these from a group perspective. |
| Presentation | We recommend that the presentation of the accounts is improved by presenting the two authority columns next to each other and the two group columns next to each other. We also recommend the Authority consider some new formatting (including colours and pictures) . | Currently the statements can be difficult to read and are very text heavy, adding colour and formatting could improve this. Changing the presentation of the Authority and Group columns will enable easier comparisons to the prior period. |

# 08 Independence



# Independence

## Relationships

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

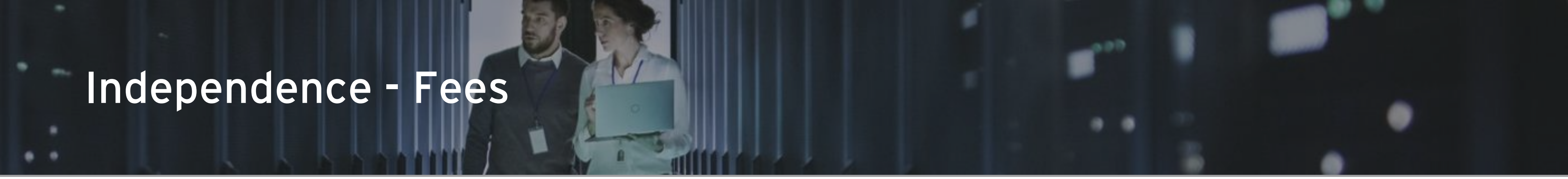
There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Services provided by EY

The next page includes a summary of the fees for the year ended 31 March 2023 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence.

| Description of service | Related independence threat | Safeguards adopted and reasons considered to be effective |
|---|---|---|
| **Audit of the financial statements of ccomponents** | Self-interest | We are also auditors of the component entities of the GLA, GLAH/P, LPC, LLDC Group and OPDC.<br><br>We have separate audit teams and different signing partners between the GLA and the component entities. Therefore, while we have the ability to operate as a team to reduce duplication, there is different challenge and review at partner level of the work performed to ensure segregation. |
| **Opinion on the GLA Summary Accounts (non-audit service)** | Self-interest | We also provide an opinion on the GLA Summary Accounts.<br><br>We have an engagement quality reviewer who performs a review of the audit teams work in addition to the partner in charge to provide challenge and ensure segregation. |

There are no other threats that we have identified at the date of this report.



# Independence - Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Levelling up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As part of our reporting on our independence, we set out here a summary of the expected fees for the year ended 31 March 2023.

Scale fee variations are agreed when we incur work in addition to the planned level of work built into the scale fee.

For the GLA audit, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise and therefore we expect to agree a scale fee variation with management and PSAA for the 2022-23 audit.

Fee variations could arise in respect of the subsidiaries if extensive work is required in excess of what has been planned and built into the base fees.

*The 2021/22 GLA Audit fee includes a fee variation £167,263 which reflects the extensive technical work to resolve issues in the 2021/22 audit as reported in our prior year audit results report. We have communicated the variation with officers. This fee is subject to approval by PSAA which has not been received at the date of this report.

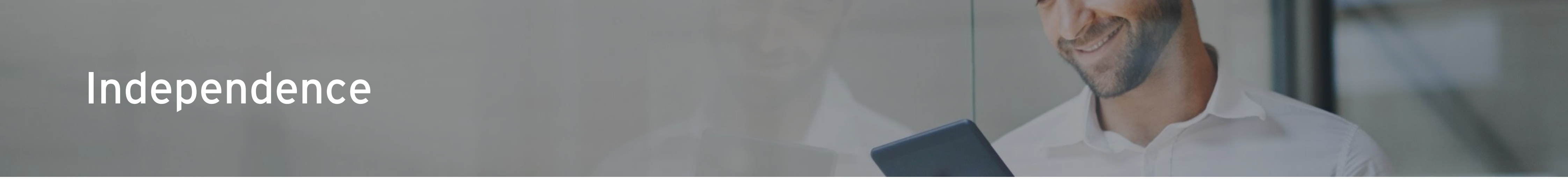
** The 2022/23 position includes a fee variation of 144,515 which reflects work required to address a reduced materiality resulting from Close Monitoring risk rating, response to Non-Compliance matters and other issues. This fee is also subject to approval by PSAA.

| | Current Year | Prior Year |
|---|---|---|
| | Proposed fee £ | £ |
| GLA Audit - Scale Fee | 140,448 | 90,039 |
| Audit of subsidiaries (See table below) | 409,174 | 308,128 |
| **Total Scale Fee** | **549,622** | **398,167** |
| Scale Fee Variation - GLA Audit | 144,515** | 167,263* |
| Fee Variation - Subsidiaries | TBC | TBC |
| **Total Group Audit Fee** | **TBC** | **565,430 - TBC** |
| GLA Summary Accounts | 4,500 | 4,500 |
| **Total non-audit services** | **4,500** | **4,500** |
| **Total fees** | **TBC** | **569,930- TBC** |

The table below represents a detailed breakdown of the subsidiary base audit fees:

| | Current Year | Prior Year |
|---|---|---|
| | Proposed fee £ | £ |
| E20 Stadium LLP | 47,000 | 38,000 |
| GLAP Holdings Ltd | 170,500 | 155,000 |
| London Treasury Liquidity Fund GP Ltd | 7,500 | 4,000 |
| London Treasury Liquidity Fund LP | 24,250 | 16,000 |
| LLDC | 67,347 | 27,778 |
| London Power Co Ltd | 17,380 | 15,800 |
| London Treasury Ltd | 18,500 | 10,000 |
| LS185 Ltd | 38,000 | 30,000 |
| OPDC | 18,697 | 11,550 |
| **Total Subsidiaries Audit Fee** | **409,174** | **308,128** |

***All fees exclude VAT***



# Independence

## EY Transparency Report 2023

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 2023:

ey-uk-2023-transparency-report.pdf

# 09 Appendices

# Appendix A – Audit approach update

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from 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

There were no significant changes to our audit approach from the prior year. We carried out a fully substantive audit on all balances.

# Appendix B - Summary of communications

## Summary of communications

| Date | Nature | Summary |
|---|---|---|
| 01 June 2023 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss key audit risks and audit planning. |
| 20 July 2023 | Meeting | The partner in charge of the engagement met with the Audit Panel to present the audit plan for the year ended 31 March 2023. |
| 15 Sept 2023 | Meeting | The partner in charge of the engagement, along with other senior members of the audit team, met with the management team to discuss key audit risks and operational updates. |
| 03 October 2023 | Report | Audit status report shared with management. |
| 20 October 2023 | Meeting | The partner in charge of the engagement met with the Audit Panel to present the audit status report. |
| 30 November 2023 | Report | Draft Audit Results Report shared with management and the Mayor. |
| 29 January 2024 | Report | Final Audit Results Report shared with management and the Mayor. |

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

# Appendix C - Required communications with the Mayor

## Required communications with the Mayor

There are certain communications that we must provide to those charged with governance of UK entities. 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 audit committee 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. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Audit planning report in July 2023 |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit results report in January 2024 |

# Appendix C - Required communications with the Mayor (cont'd)

| | | 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 the audit committee include:<br>▸ A declaration of independence<br>▸ The identity of each key audit partner<br>▸ The use of non-member firms or external specialists and confirmation of their independence<br>▸ The nature and frequency of communications<br>▸ A description of the scope and timing of the audit<br>▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits<br>▸ Materiality<br>▸ Any going concern issues identified<br>▸ Any significant deficiencies in internal control identified and whether they have been resolved by management<br>▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee<br>▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof<br>▸ The valuation methods used and any changes to these including first year audits<br>▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework<br>▸ The identification of any non-EY component teams used in the group audit<br>▸ The completeness of documentation and explanations received<br>▸ Any significant difficulties encountered in the course of the audit<br>▸ Any significant matters discussed with management<br>▸ Any other matters considered significant | Audit planning report in July 2023;<br>Audit results report in January 2024 |

# Appendix C - Required communications with the Mayor (cont'd)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty related to going concern<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The appropriateness of related disclosures in the financial statements | Audit results report in January 2024 |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | Audit results report in January 2024 |
| Fraud | ▸ Enquiries of the audit & assurance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud<br>▸ Any other matters related to fraud, relevant to audit & assurance committee responsibility. | Audit planning report in July 2023;<br>Audit results report in January 2024 |

# Appendix C - Required communications with the Mayor (cont'd)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Related parties | Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | Audit results report in January 2024 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>▸ Relationships between EY, the company and senior management, its affiliates and its connected parties<br>▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>▸ Related safeguards<br>▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit<br>▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy<br>▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | Audit results report in January 2024 |

# Appendix C - Required communications with the Mayor (cont'd)

| | | | Our Reporting to you |
|---|---|---|---|
| **Required communications** | **What is reported?** | | **When and where** |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures. | | Audit results report in January 2024; |
| Consideration of laws and regulations | ▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | | Audit results report in January 2024; |
| Significant deficiencies in internal controls identified during the audit | ▸ Significant deficiencies in internal controls identified during the audit. | | Audit results report in January 2024;<br>Auditors Annual Report in March 2024. |
| Group Audits | ▸ An overview of the type of work to be performed on the financial information of the components<br>▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components<br>▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work<br>▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted<br>▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. | | Audit planning report in July 2023;<br>Audit results report in January 2024; |
| 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 in January 2024 |

# Appendix C - Required communications with the Mayor (cont'd)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| 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 in January 2024; |
| Auditors report | ▸ Key audit matters that we will include in our auditor's report<br>▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report in January 2024; |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit results report in January 2024;<br>Auditors Annual Report in March 2024. |
| Value for Money | ▸ Risks of significant weakness identified in planning work<br>▸ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. | Audit planning report in July 2023;<br>Audit results report in January 2024;<br>Auditors Annual Report in March 2024. |

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**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**



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ED None



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