Appendix 3

Greater London Authority & Greater London Authority Holdings Ltd (incl. GLA Land and Property Ltd)

Audit Results Report (ISA260) for the year ended 31 March 2013

Issued September 2013

Building a better working world

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Building a better working world

INVESTOR IN PEOPLE

Private and confidential
Martin Clarke
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25 September 2013

Dear Martin

Audit results report

We are pleased to attach our audit results report for your consideration. This report summarises our audit conclusion in relation to Greater London Authority (the Authority's); Greater London Authority Holdings Ltd (GLAH); and GLA Land and Property Ltd (GLAP) financial position and results of operations for 2013.

The audit is designed to express an opinion on the 2012/13 financial statements for each entity, reach a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the entity's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Authority. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you.

Yours faithfully
For and on behalf of Ernst & Young LLP

Karl Havers
Partner
Ernst & Young LLP
United Kingdom
Enc.

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Contents

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview of the financial statement audit

The Authority is responsible for preparing and publishing the Statement of Accounts for each entity, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- Forming an opinion on the financial statements of each entity;
- Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Financial statements

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Authority's financial statements and on those of GLAH and GLAP. Our main findings in relation to the areas of risk/areas of audit emphasis included in our Audit Plan are set out in section 3 of this report.

Economy, efficiency and effectiveness

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion relating to the Authority.

Whole of Government accounts

We are currently completing our work required to issue our report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts. To date, we have no issues to report.

Control themes and observations

Our audit did not identify any control issues that we need to bring to your attention.

Summary of audit differences

Our audit identified a number of errors which we have highlighted to management for amendment. All of these have been adjusted during the course of our work. There was one material adjustment to the primary statements in GLAP and brief details of this have been provided in section 8. Of the remaining adjusted items, none had a material impact on the primary statements and so we have not provided further details of these amendments.

2. Scope update

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued on 20 March 2013 and in relation to the Authority has been conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

Our work in relation to GLAH and GLAP has been conducted in accordance with International Standards on Auditing (UK and Ireland).

We carried out our work in accordance with our Audit Plan. There have been no changes to the scope of our audit since we presented our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, focusing our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan.

Significant risk 1:

Assessment of the GLA Group boundary (all entities)

Our audit plan set out the significant changes that have taken place in the GLA family in 2012-2013. In light of this we undertook, an assessment of the GLA group boundary against the criteria set out in the two relevant international accounting standards IAS27. The purpose of the assessment was to conclude which functional bodies and other group entities fall within the boundary and therefore require consolidating into the GLA Group Financial Statements.

Our approach focused on assessing GLA's exposure to benefits and level of control that it has for each of the GLA's functional bodies. We paid particular attention to the definition of benefits derived compared to the purpose of the GLA, and we carefully considered the level of control over operations and finance that the GLA exerted over each entity. We assessed the processes in place to ensure all joint ventures are captured and treated appropriately; and ensured that appropriate consolidation procedures are applied to those bodies that lie within the group boundary.

We worked closely with the finance team on the assessment and concluded that only the London Legacy Development Corporation (LLDC) and GLAH fall within the group boundary. We also concluded that TfL, MOPAC, LFEPA and London Development Agency (LDA) should not have been consolidated into the GLA Group accounts in previous periods. These entities were deconsolidated from the group accounts comparative amounts for both 2010/11 and 2011/12 by way of a prior period adjustment.

Our audit of the prior period adjustment to deconsolidate TfL, MOPAC, LDA and LFEPA from GLA's financial statements and related disclosures is complete. We have no matters arising.

Our audit of the consolidation of GLAH and LLDC into the GLA's 2012-2013 financial statements is complete. We have no matters arising. We have tried to consider how IFRS10 will be implemented in the Public Sector, and currently believe that re-consolidation of the above entities is unlikely. However, it is possible that IFRS10 could be changed for application in the public sector which then might lead to re-consolidation in the future. We are aware that responsibilities and governance changes can happen in the future also which could lead to a reconsideration of the Group boundary following those changes.

Significant risk 2

Accounting for the transfer into GLA and GLA group of the assets and liabilities from the London Development Agency; Housing and Communities Agency (London Region) and the London Thames Gateway Development Agency (all entities)

On April 1 2012 the assets and liabilities of the London Development Agency; Housing and Communities Agency (London Region) and the London Thames Gateway Development Agency were transferred into the GLA. The Local Authority Accounting Code of Practice suggests that merger accounting should be applied in circumstances where the transfer takes places wholly within the public sector, particularly when services as well as assets are transferred – as was the case for each of the above to varying degrees. GLAH and GLAP financial statements are prepared under EU adopted IFRS and therefore pooling of interests should be applied in the circumstances of this transfer.

Again, we worked closely with the finance team; reviewing and testing the application of the merger accounting and pooling of interest processes; ensured that the consolidation and disclosure requirements of the Code of Practice and international accounting standards were fully complied with; and reviewed the consolidation procedures with the Authority and GLAH. Our work is complete and we have no matters arising. .

Significant risk 3

Significant accounting judgements and estimates, particularly provisions and contingent liabilities (all entities)

The financial statements of all the entities are based in certain areas on the significant accounting judgements of the preparers of the accounts. The accounts also contain material accounting estimates; particularly provisions and contingent liabilities. Additional provisions have been transferred into the Authority and GLAP as part of the LDA / HCA / LTGW transfer.

Our approach focused on assessing and testing the reasonableness of accounting judgements and estimates used in the preparation of the accounts and ensuring that accounting judgements and estimates are correctly disclosed in the accounts as required by IAS 8 and the Code of Practice. Our work is complete and we have no matters arising.

Significant risk 4

Pension valuations and disclosures (Authority only)

The Local Authority Accounting Code of Practice and IAS19 requires the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority’s current pension fund deficit is a highly material and sensitive item and the Code requires this liability to be disclosed on the Authority’s Balance Sheet. The information disclosed is based on the IAS19 report issued to the Authority by the actuaries to the administering body; the London Pension Fund Agency.

Our approach focused on liaising with the auditors of the London Pensions Authority, the LGPS administering authority, to obtain assurances over the information supplied to the actuary in relation to the Greater London Authority. In addition we assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the Audit Commission, PwC and on the review of that work by the EY pension’s team. Detailed procedures were also undertaken in reviewing and testing the accounting entries and disclosures made within the Authority’s financial statements in relation to IAS19.

Our work is complete and we have no matters arising. .

Significant risk 5

Borrowing controls and compliance with prudential indicators (Authority and GLAP)

The Authority took on a significant amount of debt during the financial year in order to fund large scale capital projects elsewhere within the GLA family. The Authority needed to ensure compliance with treasury management strategy; borrowing controls and prudential indicators.

In addition, the Authority inherited a borrowing requirement of approximately £300m from the LDA which relates to LDA's property and capital transactions. The LDA's property business and related assets transferred to GLAP. The Authority entered into a loan agreement with GLAP Ltd on arms length terms to reflect this borrowing requirement, although no cash actually transferred to GLAP Ltd.

We have reviewed the loan transactions undertaken during the year to ensure compliance with treasury management strategy and to verify the accounting entries within the financial statements. Our work is complete and we have no matters arising.

Significant risk 6

Risk of misstatement due to fraud and error (all entities)

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. For example, our testing of journal entries encompassed assessing for any indication of management override. There were no issues arising from this work.

The Authority was ‘green’ rated in the latest NFI assessment. Good progress has been made on all NFI match reports across all datasets. The Authority appear on track to complete NFI reviews/investigations in reasonable time.

Significant qualitative aspects of accounting practices

There are two issues which we would like to draw to your attention regarding the accounting treatment within the financial statements of the London Legacy Development Corporation; which is consolidated into the GLA Group Accounts:

- The valuation basis of assets inherited by LLDC from the Olympic Delivery Authority changed from depreciated historic cost to investment asset. The key difference in approach is that the ODA valued assets as specialized Olympic sites, whereas LLDC have valued the assets based on future incomes streams – which is what the future use represents now in LLDC hands. This resulted in a material impairment of £1.2bn being charged to the LLDC income and expenditure statement. This charge now appears in the GLA Group income and expenditure statement as an exceptional item.
- The LLDC Balance Sheet recognises a liability in respect of a loan linked to the Orbit Tower, an investment asset situated within the Olympic Park. The loan is repayable out of future profits. This loan has not been discounted due to the anticipated speed of repayment which results in any discounting being immaterial.

4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Authority, as a single entity, has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- Arrangements for securing financial resilience – whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and

- Arrangements for securing economy, efficiency and effectiveness – whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant risks in relation to these criteria within the Audit Plan and have no issues to report having concluded our procedures.

5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Our audit did not identify any control issues that we need to bring to your attention.

6. Status of our work

6.1 Financial statement audit

Our audit work in respect of our opinion on the Authority's, GLAH's and GLAP's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be received on 30.9.13.	Those Charged with Governance and Management
Whole of Government Accounts (WGA)	Completion of required audit Procedures on the WGA return and providing completed assurance statement to DCLG	Management and EY
Annual Governance Statement (AGS)	Management to update the AGS to reflect GLA's activities with those entities included in the GLA's group financial statements, GLAH and LLDC. We will review the revised AGS to ensure it is consistent with our knowledge and understanding	Management and EY
Rental income and associated expenditure in GLAP	Completion of sample testing of rental income and associated expenditure undertaken by property management providers.	Management and EY
Compulsory Purchase Order Provisions in GLA and GLAP	Conclusion of testing to ensure compliance with accounting policy and receipt of management representations over the allocation of the provision between the Authority and GLAP.	Management and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Authority's, GLAH's and GLAP's financial statements on 30 September 2013.Until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise and should this be the case, we will report this to you before 30 September.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete and we anticipate issuing an unqualified value for money conclusion.

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7. Fees update

A breakdown of our agreed fee is shown below.

	Final fee 2012/13 £'000	Original fee 2012/13 £'000	Actual fee 2011/12 £'000
Total Audit Fee – GLA	140,000	84,720	141,200
Total Audit Fee – GLAH & GLAP	112,000	-	-

We communicated our planned fee for the Authority audit in the Audit Plan issued in March this year. Subsequently we set out the circumstances and reasons why we were seeking a variation to the £84,720 GLA scale fee; and agreed this variation with management. The GLA scale fee however is set by the Audit Commission who are responsible for approving any variations. Since March 2013, the Audit Commission have reviewed the changes in risks and assumptions on the GLA audit. Rather than apply a variation to the £84,720 fee, the Audit Commission have agreed with management and ourselves that the GLA scale fee is rebased to reflect significant and ongoing changes in the GLA's governance and financial responsibilities and the resulting impact this has on the extent and nature of our audit work. Therefore, the rebased GLA fee has been set at £140,000. Separately, we have agreed and received a signed engagement letter for the external audit of GLAH and GLAP, where the fee has been set at £112,000.

We are also proposing a one-off additional fee of £45,195 on the 2012-2013 GLA audit. This additional fee reflects the time and cost of the extra audit procedures we undertook to complete the GLA group boundary accounting assessment and to review the prior period adjustment to deconsolidate TfL, MOPAC, LDA and LFEPA from the GLA's 2012-2013 financial statements. Management have agreed the additional fee but this, and the payment terms, is still subject to approval by the Audit Commission.

Other than our proposed one-off additional fee, there have been no other changes to the planned scope of our audit. We are not proposing any further variations to our audit fees at either GLA or GLAH & GLAP.

8. Summary of audit differences

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

Our audit identified a limited number of errors which we have highlighted to management for amendment. All of these have been adjusted during the course of our work.

There was one material adjustment made to the primary statements in GLAP Ltd. The Compulsory Purchase Order (CPO) provision allocated to GLAP was overstated by £2.35m. The main element of this error occurred when fees to be charged to GLA and GLAP by TfL for services related to CPO provision management were incorrectly included in the amount provided. The financial statements have been corrected for this error.

We do not consider any of the remaining errors to have a material impact on the primary statements and so we have not provided further details of these amendments.

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 20 March 2013. We complied with the Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

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

Appendix A Required communications with those charged with governance

There are certain communications that we must provide to those charged with governance. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process ► Findings and issues regarding the opening balance on initial audits	Audit results report
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Audit results report
Fraud ► Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	Enquiries made of those charged with governance.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Audit results report – no significant matters arising
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – no issues to report

Required communication	Reference
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► 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 – no issues to report
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan and update in section 9 of this report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Audit results report – no issues to report
Significant deficiencies in internal controls identified during the audit	Audit results report – no issues to report
Opening Balances ► Findings and issues regarding the opening balance of initial audits	Audit results report – no issues to report
Fee reporting ► Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).	Audit Planning Report and update in section 7 of this report.