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Wednesday, 13 May 2015

Dear Debbie

Thank you for your letter asking us to formally update your understanding of our management processes and arrangements. Please see our response to your points below:

**1. What are the management processes in relation to:**

- a. undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);**

The risk that the financial statements may be materially misstated due to fraud or error is identified on the Corporate Risk Register. Preventative controls include LLDC anti-fraud, bribery and corruption policies and procedures; procurement policies and procedures with appropriate sign-off of key decisions (eg: new business activity, contracts) by Transport for London (TfL) Legal; financial policies and procedures with due regard to segregation of duties (including General Ledger journals), senior level sign-off for new supplier and customer set up and for purchasing and supply of goods and services; and awareness raising of fraud risks within Finance and across the business.

The Corporate Risk Register is a standing item on the Audit Committee agenda and is reviewed and updated regularly by LLDC's Executive Management Team and helps form the basis of LLDC's internal audit programme.

- b. identifying and responding to risks of fraud in the Corporation, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**

Management considers procurement, the handling of cash and accounts payable and receivable, and payroll as areas of greatest risk of fraud in the Corporation. Consequently the controls in these areas have received particular management focus in the design of processes and procedures.

Measures to respond to these risks includes a decision making process that requires financial and legal authorisation before procurement is commenced or contracts are issued. LLDC legal services are provided by TfL Legal who attend LLDC board meetings and provide a degree of independent oversight of LLDC business.

LLDC's annual internal audit programme is advised by the Corporate Risk Register and considered at the Executive Management Team before being tabled at Audit Committee for approval.

Internal auditors carried out three audits in 2013/14 relating to financial systems and looking at areas where there is the risk of fraud, summarised below:

- High Level Accounting Controls, including risks relating to: authorisation of transactions; segregation of duties; and security relating to access to the accounting system.
- Ordering Receipts and Payments, including risks relating to: recording of payments and receipts; invoicing for services provided; and debt management.
- Payroll, including risks relating to: payroll payments including fraudulent payments; poor controls over data handling and transfer; and payment authorisations.

These reports highlighted a number of weaknesses in internal control. LLDC management addressed these issues expeditiously and implemented a finance improvement plan. This improvement plan is ongoing with the implementation of a new finance system in 2015/16 and the restructuring of the Finance team. Part of this restructuring is building an improved business partnering team within Finance in order to improve the understanding of the business by Finance. Understanding the business and the financial results of the business are an important factor in managing fraud risk in the LLDC.

A similar programme of audits undertaken in 2014/15 to review progress against actions highlighted by earlier reports and to ensure revised processes have been embedded within LLDC's systems of control, showed improvements in each of the three audits.

There is no evidence that the Corporation has suffered fraud as a result of the weaknesses in control. No fraud has been identified through the monthly balance sheet reconciliation processes or through the year end close process currently in train.

**c. *communicating to employees its views on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Corporation's code of conduct);***

When new employees join LLDC they are issued with its Code of Conduct as part of their contract of employment, this is part of the Staff Induction training and new employees are required to sign up to this (and to sign an Acceptable Use Policy for access to the Corporation's IT system).

The Corporation's view on business practices and ethical behaviour are regularly communicated to staff through all staff meetings, directorate meetings, training sessions (such as on the Corporation's project approvals process), the Corporation's intranet and weekly all staff emails.

The Audit Committee reviews the Corporation's Whistle Blowing Policy periodically and the Chair of the Audit Committee is named as a contact in the Whistle Blowing Policy should an employee wish to report a concern related to ethical behaviour. LLDC also has policy and procedure providing guidance and instruction to staff on Declarations of Interest and Hospitality. The induction training for new employees points to the suite of policies held on the intranet which includes these policies.

A fraud workshop by the Internal Auditors for key staff engaged in purchasing and sales is scheduled for early 2015/16.

**d. encouraging employees to report their concerns about fraud; and**

The Corporation's Anti-Fraud, Bribery and Corruption Policy and its Whistle Blowing Policy are the Corporation's policies relating to fraud and the process to allow staff to report concerns. These policies are on the Corporation's intranet.

**e. communicating to the Audit Committee (i.e. those charged with governance) the processes for identifying and responding to fraud or error?**

The Anti-Fraud, Bribery and Corruption Policy and the Whistle Blowing Policy were presented to the Audit Committee, with the LLDC's regular Risk Management and Internal Controls Update, at its first meeting in June 2012. Since that date they have been presented to the Committee periodically to ensure they remain relevant and up to date.

The Whistle Blowing Policy includes a reference to the ability of LLDC staff members to report concerns to the Chair of the Audit Committee. The Audit Committee has been made aware that there have been staff communications and training related to these policies and that these policies are held on LLDC's intranet. To date no member of staff has raised any issues under these policies.

**2. What are Management's views about whether there are areas within the organisation that are at risk of fraud?**

LLDC's management regards procurement, cash, accounts payable and receivable and payroll as areas of greatest risk of fraud and has focussed policies and controls in these areas. Measures to respond to these risks include those set out above, as well as a decision making process that requires financial and legal authorisation before procurement is commenced or contracts are issued. LLDC also ensures that a full audit trail is available of any procurement undertaken by LLDC and this includes the use of the Delta portal, which ensures that the evaluation of bids is undertaken in a fully transparent manner.

**3. Does Management have knowledge of any actual or suspected or alleged instances of fraud?**

No.

**4. Is Management satisfied that internal controls to prevent and detect fraud, including segregation of duties, exist and work effectively?**

As noted above, deficiencies in internal control were noted by the internal auditors in their 2013/14 finance system audits which have been addressed and will be mitigated

further by the continued implementation of a finance improvement plan. During this work no specific instances of fraud were discovered.

LLDC management is confident that there are adequate processes in place to respond to risks of fraud. Appendix 1 details specific current financial controls within the business to ensure the risk of fraud is managed appropriately within Finance.

**5. Are there any deficiencies in internal control?**

As noted above three critical audit reports in March 2014 found weaknesses in LLDC's systems, controls and compliance. Since then significant work has been undertaken to address these issues. The resignation and subsequent departure of the Financial Controller in May 2014 at a time when the organisation was engaged with producing statutory accounts and managing the year-end audit process as well as addressing the issues raised in the audit reports, resulted in a significant capability and resource gap.

KPMG were appointed to provide financial controller capability and provide advice on identifying and addressing weaknesses in the finance systems, processes and compliance and encourage behavioural change in both finance and in the business. The KPMG work encompassed four main work streams:

- Financial Controller capability;
- finance systems review, remediation of issues identified and options analysis;
- support to the production of statutory accounts for LLDC and E20 LLP; and
- a Finance Transformation programme.

Recent follow up audits by Moore Stephens have shown significant improvement in all areas.

LLDC management is confident that there are adequate processes in place to respond to risks of fraud. Appendix 1 details specific current financial controls within the business to ensure the risk of fraud is managed appropriately within Finance.

**6. Are you aware of any instances where controls have been overridden?**

We are not aware of any instances where controls have been overridden in 2014/15.

**7. Is there is any organisational or management pressure to meet financial or operating targets?**

LLDC has a challenging agenda in delivering the Olympic legacy, including significant expenditure on the Stadium and Olympicopolis. Public and media scrutiny is intense, and project teams are expected to put in place programmes to ensure that objectives are delivered on time and on budget. LLDC does not operate a bonus system for the majority of staff, however, annual increments for those eligible are awarded on the basis of targets met. However, to balance this, LLDC's targets and achievement against targets are public and transparent and LLDC operates an "open book" policy with its key funder, the Greater London Authority (GLA). LLDC operates in an open and transparent culture and public scrutiny of LLDC's operations and financial outcomes is high.

**8. Are there any particular areas of the accounts that are more susceptible to false entries or omissions or other forms of manipulation? Are management aware of any such manipulation having occurred?**

It is management's view that there are no particular areas of the accounts that are more susceptible than others to material misstatements. No such false entries, omissions or manipulations are known to have occurred in 2014/15 or previously, with additional assurance being provided by prior year audits of accounts.

**9. How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2013/14?**

TfL Legal provide LLDC with legal advice under the Mayor's shared services agenda and are required to comment on all significant decisions. This includes advice on decisions taken by the Board or under delegated authority which are recorded in Board and Committee papers. Legal sign off and comment is also required for project approval documents, contracts and other decision documents. Management is not aware of any instances of legal breach.

Compliance with other legalisation e.g. employment, accounting or procurement, is ensured by the working policies, procedures and practice of the relevant LLDC team, including taking external advice where appropriate.

**10. Are there any actual or potential litigation or claims that would affect the financial statements?**

There are no actual or potential litigation or claims that would affect the financial statements that have not been discussed with the audit team.

There is a corporate risk which has been reported to the Audit Committee that Cofely Workplace, who provide Estates and Facilities Management services to LLDC for the Park, are claiming an increased annual fee of £1.65m having identified an increased scope in venue operations. Cofely claim a retrospective adjustment which if agreed would impact on 2014/15 statements. LLDC dispute the contractual basis for the claim.

There is a potential claim by London Borough of Hackney (LBH) and Lee Valley Regional Park Authority (LVRPA) that LLDC has ownership of/is responsible for the maintenance of footbridge F01 (located over adopted highway Ruckholt Road with footings – one a piece - on LBH and LVRPA land). LLDC's legal advice is that it is unlikely from a legal perspective that LBH/LVRPA would have a successful monetary claim against LLDC (estimated 10% risk of having to pay). LBH are seeking a commuted sum in order to take over ownership/maintenance of the bridge, LLDC estimate costs of £0.2m, whilst LBH's estimate is £0.4m.

**11. How does Management satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

LLDC's Ten Year Plan, approved by the GLA and LLDC's Board, has been prepared on the basis that income is made up of LLDC's confirmed grant funding and borrowing together with realistic estimates of other income LLDC reasonably expects to receive

through developing and trading in the Park. Expenditure is estimated on the basis of a mixture of contractual liabilities, external advice on likely cost levels and internal forecasts.

The GLA's legal responsibility to support LLDC and ensure its financial stability was confirmed in writing for the 2012/13 audit. This position has not changed and the Mayor's recent endorsement of the Ten Year Plan demonstrates this commitment to support LLDC's ongoing financial needs.

The Chairman of the Audit Committee is confirming to you separately that the Audit Committee is comfortable that management has properly reviewed whether it is appropriate to adopt the going concern basis in preparing the financial statements and supports its conclusion that there is a reasonable expectation that LLDC has adequate funding and reserves to continue in operational existence for the foreseeable future. Adopting the going concern approach in preparing the 2014/15 financial statement is appropriate.

Yours sincerely



pp. Gerry Murphy  
**Executive Director of Finance and Corporate Services**



## FRAUD POLICIES AND PROCEDURES

Area	Current arrangements
Policies	<ul style="list-style-type: none"> <li>• Anti-fraud, bribery and corruption policy available to all staff on LLDC intranet - dated June 2012</li> <li>• Whistle Blowing policy on intranet – dated June 2012</li> <li>• Fraud is also covered within the LLDC Code of Conduct – also available on the Intranet. This briefly explains expectations of all staff with regard to fraud and cross-references the Whistle Blowing policy</li> </ul>
Supplier set-up	<ul style="list-style-type: none"> <li>• Requests to set up new suppliers are received in finance from the business</li> <li>• Standard forms available on the Intranet must be used and contract completion number provided on form</li> <li>• Checks by Finance before setting up new supplier: <ul style="list-style-type: none"> <li>○ Bank details – two separate verifications from contacts within the company</li> <li>○ Companies House check – are they a registered company</li> <li>○ VAT registration check (where applicable)</li> <li>○ Credit history check</li> </ul> </li> <li>• Forms are also reviewed and signed by Procurement</li> <li>• Sole traders – more difficult to check bank details, employment status checklist completed by supplier and reviewed by business requestor and finance</li> <li>• All forms are reviewed and signed by the Financial Controller</li> <li>• Once approved, the suppliers are set up by the Finance Systems Accountant</li> </ul>
Purchase orders	<ul style="list-style-type: none"> <li>• Purchase orders can only be raised against suppliers set-up on finance system</li> <li>• Purchase orders are requested by Finance Practitioners and authorised within the finance system by the appropriate budget holder (in line with Scheme of Delegation)</li> </ul>
Customer set-up	<ul style="list-style-type: none"> <li>• Requests to set up new customers are received in finance from the business</li> <li>• Standard forms available on the Intranet must be used</li> <li>• Independent checks by Finance before setting up new customer: <ul style="list-style-type: none"> <li>○ Credit check (D&amp;B)</li> <li>○ VAT registration number (where applicable)</li> </ul> </li> <li>• All forms are reviewed and signed by the Financial Controller</li> <li>• Once approved, the suppliers are set up by the Finance Systems Accountant</li> </ul>
Sales invoices	<ul style="list-style-type: none"> <li>• Sales invoice request forms are authorised by the appropriate Director (or above) from the business before being submitted to Finance</li> <li>• Once in Finance, these are reviewed and signed by the appropriate Finance Business Partner before being raised</li> <li>• Sales invoices can only be raised to customers that are set up on the finance system in line with the above process</li> </ul>

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Bank and cash	<ul style="list-style-type: none"> <li>• Authorised signatories determined by bank mandates</li> <li>• Access to internet banking restricted to:               <ul style="list-style-type: none"> <li>○ Accounts Assistant (upload only)</li> <li>○ Senior Finance Business Partner*</li> <li>○ Financial Controller*</li> <li>○ Executive Director of Finance and Resources</li> </ul> </li> <li>• All transactions require two authorisers for cash to be released</li> <li>• * = System administrators; any changes have to be verified by the other administrator</li> <li>• Petty cash box and cash book held in safe (keys held by Financial Controller)</li> <li>• Cheques are rarely used and held within the safe – only authorised signatories on the bank mandate can sign cheques</li> </ul>
Payments	<ul style="list-style-type: none"> <li>• Payments to suppliers are made when invoices are matched purchase orders where the goods/services are received</li> <li>• Purchase orders can only be raised against suppliers that are on the finance system, which have been through the supplier set-up process detailed above</li> <li>• Exceptional payments can be requested by the business using a form available on the Intranet – these must be authorised by the relevant Executive Director for that area.</li> <li>• In these instances, if the payment is to a supplier already registered on the system, then reliance is placed upon the bank details having been checked as part of the supplier set-up process</li> <li>• If the supplier is not set up on the system then the independent check of bank details is conducted by Finance</li> <li>• Once a payment run has been finalised, remittance advices are sent to suppliers by email / post by the Finance Assistant.</li> </ul>
Payroll	<ul style="list-style-type: none"> <li>• Payroll services are provided by an outsourced company – Cintra</li> <li>• Access to the payroll system is restricted to Cintra representatives and HR/Finance (selected) staff</li> <li>• Each month amendments to payroll are provided by HR to Cintra</li> <li>• Once processed by Cintra, Finance review the payroll file as follows:               <ul style="list-style-type: none"> <li>○ Each staff members' monthly pay is compared to the prior months (by gross, PAYE, NI, pension and other deductions) and explanations for movements obtained</li> <li>○ Once all movements have been appropriately explained the payroll file is reviewed by the Financial Controller</li> <li>○ Authorisation to release the payment by Cintra is given by the Executive Director of Finance and Corporate Services</li> </ul> </li> <li>• A control form is maintained and signed at each stage by HR (including Head of HR)/Finance</li> </ul>



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Area	Current arrangements
Accounting	<ul style="list-style-type: none"> <li>• Access to the General Ledger and sub-ledgers is restricted to Finance Staff only</li> <li>• All journals are prepared and separately reviewed prior to posting</li> <li>• The Financial Controller reviews month end balance sheet reconciliations</li> </ul>
Training	<ul style="list-style-type: none"> <li>• A fraud workshop is being organised for w/c 18 May</li> <li>• The workshop will be hosted by MOPAC (Internal Auditors) and attended by Finance Practitioners and Finance staff</li> </ul>
Culture	<ul style="list-style-type: none"> <li>• A culture of transparency and honesty is encouraged within the Finance Team</li> <li>• Segregation of duties is maintained wherever possible (e.g. upload and authorisation of bank payments, creation of suppliers and registering invoices, creation and authorisation of journals)</li> <li>• Within the wider business where a devolved procurement approach is adopted, restricting the number of staff with the ability to raise orders (known as Finance Practitioners) helps to contain the risk of fraud</li> </ul>

