

# Annual Audit and Inspection Letter

London Development Agency

Audit 2007/08

March 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

- 1 The Agency has faced a challenging year as it has responded to a number of changed imperatives following the election of a new Mayor, with new priorities, the economic downturn and a series of critical reviews by its appointed auditor, the Mayor's Forensic Audit Panel, the Assembly and its own scrutiny activities that have highlighted significant shortcomings in the Agency's arrangements for governance and performance management.
- 2 Against this background, this letter demonstrates the significance of the challenges faced and the scale of the improvements required in response. It looks back to 2007/08, assessing the failures that are reflected in a qualified value for money conclusion and a critical use of resources assessment. However, it also highlights in the direction of travel report the action taken in 2008/09 in response and how those actions have already begun to deliver necessary improvement and can underpin further improvement in future.
- 3 Indeed, the Agency has adopted a more focused vision and different approach to how it carries out its functions. A new commissioning model is being implemented. Improved systems are being introduced, including for asset-, project- and performance-management. A fundamental restructuring is also underway. Early indications are that external stakeholders support this new approach.
- 4 2008 has also seen some improved outcomes. The Agency has supported London businesses, improved relationships with the business community and improved the marketing of London. It is putting in place the building blocks for ensuring the Olympic legacy. Nevertheless, moving forward, the Agency needs to ensure it has the capacity to support the commissioning model that it has adopted, and that this is underpinned with fit for purpose systems to maintain proper governance and deliver value for money.

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## Action needed by the Agency

### 5 The Agency now needs to:

- champion basic governance and performance management processes, including prioritising ongoing project assurance, producing fit for purpose accounts and embedding the improved arrangements for data quality and asset management;
- work with its partners and stakeholders to ensure that arrangements for sound governance and value for money are put in place for the Agency's developing response to its Olympics legacy responsibilities;
- respond to falling land values in the context of the Agency's ongoing financial standing and its future strategy for the repayment of debt;
- develop a range of performance measures to demonstrate cost-effectiveness and measure value for money; and
- maintain and enhance staff and external stakeholder support for its change agenda.

# Purpose, responsibilities and scope

- 6 This report provides an overall summary of the Audit Commission's assessment of the Agency. It draws on the findings and conclusions from the Agency's audit for 2007/08, together with a wider analysis of the Agency's performance and its improvement over the last year.
- 7 The letter is addressed to Board members as it is the responsibility of the Board to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. The letter also communicates significant audit and inspection issues to key external stakeholders, including members of the public.
- 8 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
  - the Agency's accounts; and
  - whether the Agency has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).
- 9 This letter includes the latest assessment of the Agency's performance under the inspection framework via the Direction of Travel report. It also includes the Audit Commission's assessment of the Agency's use of resources and the findings of the appointed auditor's work on the Agency's accounts for, and its arrangements for securing value for money in, 2007/08. The reports issued to the Agency relating to 2007/08 audit and inspection work are listed at the end of this letter.

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# How is the Agency performing?

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## The improvement since last year - the direction of travel report

- 10** The Agency has had to respond to significant challenges during 2008. These have included a change in Mayor and priorities for London, together with an unexpected decline in economic conditions, particularly affecting the City of London. At the same time, internal changes have included a new Chair and Chief Executive who have had to repair a damaged reputation and deteriorating relationships with stakeholders, as well as responding to serious governance and performance management failures. The Agency will have to continue to deal with the impact of these failures for some time.
- 11** The new leadership of the Agency has refocused the organisation. It has provided a clear long term vision for the Agency based on a commissioning approach. It is improving governance and performance management arrangements. This includes clearly defining the role of the Board and its committees, aligning resources to meet priorities and developing a robust investment model. These measures seek to ensure that value for money and efficiency are achieved. The challenge is significant and more work is needed before this can be assured.
- 12** An organisational review has been carried out to strengthen management accountability, and ensure that staffing resources reflect the demand and skills required to deliver on priorities. This has led to a clear focus on what needs to be delivered. Restructuring and downsizing are taking place with savings and efficiencies of the order of £11 million identified for 2009/10. An enthusiastic commitment by staff to this new direction is vital to the delivery of quality services. Communication with staff is therefore a priority.
- 13** Effective communication of the refocused remit of the Agency is improving relationships with external stakeholders. The new Chair and Chief Executive have worked to repair the organisation's reputation and deteriorating relationships with stakeholders to good effect. The strap line of growth, jobs and skills communicates successfully the Agency's role. Developing area based relationship management with London Boroughs has improved the Agency's understanding of areas. The Agency is now in a better place to deliver improved outcomes with Boroughs. As a result of its new commissioning approach, the Agency also needs to work closely with its third-sector partners to ensure that sufficient capacity is available within the sector to deliver projects.
- 14** Performance management is improving and enhancements to business systems are increasing efficiency. The Project Management Office has been established to ensure that there is clarity on project objectives, progress and achievement. Work is in progress to ensure that financial and project management are integrated and required improvements in document management are delivered. This improvement would advance performance management significantly, as the Agency is not currently able to monitor value for money on individual projects.

## How is the Agency performing?

- 15** Asset management is improving from a low base. An asset register and an asset management strategy are now in place. These have been risk rated and the organisation has plans to mitigate areas of risk. However, the Agency will need to manage adroitly the disposal of assets, taking into account current and future value; which may affect its ability to repay outstanding debt. Its ongoing response to changing land values will be critical to underpinning its approach to maintaining its financial standing and repaying its debt.
- 16** The Agency has contributed to business growth in London, having met its targets for the number of businesses assisted and the number of new businesses created. Effective show casing of particular industries, such as funding the Fashion Expo with over 80 exhibitors, is helping to stimulate enterprise in key business sectors. It has also exceeded its target for securing funding to support London business development with £407 million levered into London businesses in 2007/08.
- 17** Working effectively with the Mayor, the Agency is seeking to mitigate the current economic downturn. It has constructively refocused its relationship with the business community and developed a long-term business strategy. The strategy prioritises helping individuals get back into work, supporting SMEs to secure equity investment through the Finance Readiness programme, and marketing London.
- 18** The Agency has had impact at national and international levels. It has worked to stimulate business links to China, culminating in managing London's official presence at the Beijing games. The Agency has also organised networking events to reinforce links between London and India.
- 19** Progress is being made on delivering the Olympic legacy. The master plan has been produced and over 70,000 people have attended consultation events. An urban regeneration corporation is being established to manage the Olympic legacy. It will be important to ensure that sound accountability arrangements are maintained.
- 20** The Agency is contributing well to wider community outcomes. It has ensured that BAME groups are contributing to the economy of London, having met its targets for business creation, skills at basic and level two and employment support. However, the Agency did not meet its targets for business support, business creation or skills at level two for people with disabilities. To ensure a vibrant economy, all vulnerable groups need to be fully supported to achieve their contribution
- 21** Looking forward the Agency is developing important initiatives for the future of London, such as the Green Zone in East London to encourage the development of the sustainable sector and the Rent to Buy model to stimulate the housing market. The Agency is addressing the key areas of governance, programme management and performance management. The momentum needs to be sustained if the Agency is to make the step change in performance and governance that it wants - and needs - to deliver.

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# The audit of the accounts and value for money

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## Accounts

- 22** Your appointed auditor issued an unqualified opinion on the 2007/08 accounts on 31 October 2008, a month after the 30 September deadline. The Agency's processes for producing the accounts were poor. Fit for purpose working papers were not available consistently and there were delays in responding to audit queries. The quality of the draft accounts presented for audit was also poor. As a result, a number of amendments, some material, were required, in particular with regard to fixed assets and compliance with CIPFA's Statement of Recommended Practice (SORP).
- 23** The auditor was unable to identify controls in a number of key systems on which reliance could be placed for the purposes of the audit opinion on the accounts, in particular with regard to payroll, grant payments and fixed assets. As such, extensive substantive testing was required.
- 24** Further details are included in the auditor's annual governance report that was presented to the Agency's Audit, Risk and Performance Committee in September and October 2008 and in the final accounts memorandum. As a result of the difficulties encountered for 2007/08, the audit was protracted and additional audit input was required, resulting in additional fees.
- 25** Looking to 2008/09, significant improvements are needed in the Agency's arrangements. There needs to be clear leadership by senior officers, with appropriate quality control procedures to ensure that the accounts are submitted in line with SORP requirements and properly supported by working papers. There needs to be a robust closedown plan, which is monitored, and officers need to be available to respond to audit queries. Urgent improvements are also required to the Agency's key financial systems, in particular its grant-payments and fixed assets systems, to deliver an effective control environment that supports the production of materially accurate accounts.

### Value for money conclusion

- 26** Your appointed auditor is required to assess whether the Agency has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. These arrangements are assessed against criteria specified by the Audit Commission. The auditor's work identified that the Agency's arrangements in 2007/08 were inadequate against two criteria:
- the Agency's arrangements for the management of its assets, where no asset management strategy or comprehensive asset register was in place; and
  - the Agency's arrangements to monitor the quality of its published performance information, and to report the results to Members, where data quality policies and procedures were not in place, project data was not systematically reviewed by project managers and document management was not fit for purpose.
- 27** Urgent improvement was also required in a number of other areas to strengthen governance arrangements and develop more effective measures and monitoring of how the Agency secures economy, efficiency and effectiveness in its use of resources.
- 28** Your appointed auditor issued a qualified value for money conclusion on the arrangements in place in 2007/08 on 31 October 2008.

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### Use of resources

- 29** The use of resources judgement assesses how well the Agency manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support priorities and improve services. The areas covered are:
- financial reporting (including the preparation of the Agency's accounts and the way these are presented to the public);
  - financial management (including how financial management is integrated with strategy to support Agency priorities);
  - financial standing (including the strength of the Agency's financial position);
  - internal control (including how effectively the Agency maintains proper stewardship and control of its finances; and
  - value for money (including an assessment of how well the Agency balances its costs against its achievements).
- 30** The Agency's arrangements for use of resources were assessed in these five areas as shown in Table 1.

**Table 1 Use of resources assessment**

Element	Assessment 2008
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>2 out of 4</b>

Note: 1 – lowest, 4 = highest

**31** The scores awarded highlight the urgent improvement required in a number of areas of the Agency’s arrangements in 2007/08. This was also reflected in the auditor’s qualification of the Agency’s 2007/08 value for money conclusion (as above). Key priorities for action include the following.

- Drawing up an asset management strategy, supported by effective Board and officer oversight of all land holdings and comprehensive terriers and asset registers.
- Improving data quality arrangements, including drawing up a data management strategy, appointing a senior officer to take overall responsibility for data quality, training staff and monitoring data to ensure its robustness.
- Improving the arrangements for awarding funding and for monitoring whether grant has been spent for the purposes awarded, taking consistent action (including grant withholding or recovery) when statements of grant expenditure, accounts and audit certificates are not received (or where certificates are qualified).
- Strengthening the arrangements for identifying and taking action on project overspends, including reporting to the Board.
- Strengthening the governance framework by:
  - drawing up and publicising an anti-fraud and corruption strategy;
  - drawing up a treasury management strategy;
  - developing further the Agency’s risk management arrangements; and
  - learning the lessons from the various reviews of Agency funded projects, in particular prioritising ongoing project assurance.
- Developing a range of performance measures to demonstrate the Agency’s cost effectiveness and measure the Agency’s performance over time and with other organisations, including a review of the cost effectiveness of different kinds of interventions and investments.

## The audit of the accounts and value for money

- 32** Action has already been taken in 2008/09, designed to secure improvements in the Agency's corporate arrangements for delivering value for money. The Agency has established an improvement programme to manage a range of changes to its governance arrangements, operating model and structures, building on work that in some cases commenced in 2007/08. The appointed auditor will follow up and assess progress as part of the 2008/09 audit.

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### Certificate

- 33** Your appointed auditor is currently investigating aspects of the Agency's arrangements for maintaining proper governance and securing value for money, in particular with regard to grant-funding. That work is in progress, in particular having regard to the Agency's own ongoing reviews and ongoing police investigations.
- 34** As part of its ongoing work, the Agency commissioned an external review of a number of projects over the period of its existence, which received some £22 million of Agency funding. This has recently reported and has confirmed the range of weaknesses in the Agency's arrangements for ongoing project management considered elsewhere in this letter, in particular with regard to document management and the award and monitoring of grant.
- 35** The auditor will report his conclusions following the completion of due process. In the meantime, the audit certificate formally concluding the 2007/08 audit will not be issued.

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# Looking ahead

- 36** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local taxpayers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 37** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 38** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.
- 39** We recognise that the Agency and the other GLA functional bodies are unique and, as in previous years, we will be consulting the Agency on how CAA, including the use of resources judgements, will be delivered appropriately. We will continue to discuss next year's assessment framework with the Board and officers over the coming months, together with the action that the Agency can take to prepare itself for the new assessment.

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# Closing remarks

- 40 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented to the Board on 19 March 2009 and to the Audit, Risk and Performance Committee on 9 April 2009. Copies should be provided to all Board members.
- 41 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Agency during the year.

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**Table 2     Reports issued**

Report	Date of issue
Audit and inspection plan	March 2007
Annual governance report	September 2008
Opinion on financial statements	October 2008
Value for money conclusion	October 2008
Final accounts memorandum	December 2008
Use of resources report	December 2008
Review of internal audit	January 2009
Annual audit and inspection letter	March 2009

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- 42 The Agency has taken a positive and constructive approach to audit and inspection work and I wish to thank officers for their support and cooperation.

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### Availability of this letter

- 43 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Agency's website.

**Ken Davis**  
**Comprehensive Area Assessment London Co-ordinator**

March 2009

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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