London Legacy Development Corporation

Year ending 31 March 2014

Annual Audit Letter

21 October 2014

Building a better working world

DELIBERATELY LEFT BLANK FOR PRINTING PURPOSES

Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ

Tel: + 44 1223 394400
Fax: + 44 1223 394401
ey.com

Building a better working world

INVESTOR IN PEOPLE

The Members
London Legacy Development Corporation
Level 10, 1 Stratford Place
Montfichet Road
London
E10 1EJ

21 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the members of the London Legacy Development Corporation (the Corporation) and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of the Corporation in the 2013/14 Audit Results Report issued on 4 September 2014.

The matters reported here are the most significant for the Corporation.

I would like to take this opportunity to thank the officers of the Corporation for their assistance during the course of our work.

Yours faithfully

Debbie Hanson

Debbie Hanson
Director
For and behalf of Ernst & Young LLP
Enc

DELIBERATELY LEFT BLANK FOR PRINTING PURPOSES

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 Annual Letter 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. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 4 April 2014 and is 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.

The Corporation is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Corporation reports publicly on an annual basis 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 Corporation 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 and reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Corporation 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:

Audit the financial statements of the London Legacy Development Corporation for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2014 we issued an unqualified audit opinion in respect of the Corporation's financial statements.
Form a conclusion on the arrangements the Corporation has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Corporation (the Audit Committee) communicating significant findings resulting from our audit.	On 4 September 2014 we issued our report in respect of the Corporation.
Report to the National Audit Office on the accuracy of the consolidation pack the Corporation is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 25 September 2014.
Consider the completeness of disclosures in the Corporation's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 25 September 2014 we issued our audit completion certificate.

2. Key findings

2.1 Financial statement audit

We audited the Corporation's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 25 September 2014.

In our view, the arrangements for the production of the financial statements have improved from last year. There do however remain areas for improvement in relation to areas such as asset valuations; for example the need to provide clear written instructions to valuers, and the documentation provided to support some of the key judgements in the accounts such as the decision not to provide for the potential VAT liability and the basis of valuation of the Arcelor Mittal Orbit asset and associated loan. Our audit identified a number of misstatements which we highlighted to management for amendment; all of which were corrected during the course of our work. These are detailed within our Audit Results Report and where relevant, summarised below. The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing did not identify any instances of misstatement due to fraud.

Significant risk 2: Assessment of the Corporation group boundary

In 2012/13, the Corporation entered into a Joint Venture with the London Borough of Newham to form the E20 Stadium Company LLP (E20 LLP). E20 LLP has taken on responsibility for the development and subsequent operation of the Olympic Stadium and began trading in 2013/14.

The Corporation concluded that a joint venture relationship exists between LLDC and E20 LLP and that this relationship would be accounted for using the equity method within the Corporation group accounts. This means that the Corporation's accounts included a share of losses and a write off of the investment in E20 totalling £23.8m in 2013-14. During 2013-14, expenditure of £34.4m on stadium transformation was included in the E20 accounts. This expenditure was subsequently impaired by £25.3m; an impairment rate in excess of 70%. This impairment rate is based on the forecast total spend on stadium transformation of £226m and estimated fair value on completion of £60m. The impairment charge will need to be revisited each year as the projections for costs and fair value of the asset are updated.

Significant risk 3: Significant accounting judgments and estimates, particularly provisions and contingent liabilities

The financial statements of the Corporation are based in certain areas on the significant accounting judgements of the preparers of those accounts. The accounts also contain material accounting estimates; particularly provisions and contingent liabilities.

The draft accounts presented for audit did not include either a provision or contingent liability in relation to the potential VAT liability that was referred to in our Audit Plan. We were initially provided with limited evidence to support this treatment in the accounts. Following discussions with the Corporation's VAT advisors to clarify the position on this matter, it was agreed with officers that a contingent liability should be disclosed in regard to a potential liability with HMRC under the partial VAT recovery scheme. This was on the basis that the Corporation has a present obligation as a result of a past event regarding this issue, but a reliable estimate of the obligation cannot be made at this time. The Code requires a contingent liability to be disclosed in such circumstances.

Significant risk 4: Property valuations

The Corporation balance sheet contains property assets which are material in nature and which were significantly impaired in 2012/13. The unique and material nature of the Corporation's Olympic Park property assets and the basis on which they are valued (i.e. as investment assets), mean that small changes in assumptions when valuing the assets can have material impact on the financial statements.

All the Corporation's assets in the Park are valued on the basis of future income streams and are therefore sensitive to changes in projected visitor numbers and usage. It is therefore important that the Corporation updates its valuations on a regular basis and provides clear instructions to the valuers which are supported by up to date information on the performance of the asset. The Corporation should also critically review the resulting valuations to ensure they are consistent with their knowledge of the performance of the assets.

With regard to the Arcelor Mittal Orbit investment asset; the draft financial statements that were presented for audit included the Arcelor Mittal Orbit at a valuation of £6m, based on annual estimated visitor numbers of 350,000 per year. Visitor numbers during initial trading were however significantly below the planned levels on which the estimate of 350,000 was based. Following discussions with senior officers regarding the impact of this on the asset valuation and consideration of the visitor numbers by the Corporation's Board, the Corporation commissioned a further valuation of the Arcelor Mittal Orbit in July 2014. This valuation assumed annual visitor numbers of 150,000 (an estimate based on the first three months of trading) and resulted in a valuation of £875k. The accounts were subsequently amended to reflect the updated valuation and the related asset impairment.

Other audit findings: The Arcelor Mittal Orbit loan and finance team arrangements

The Arcelor Mittal Orbit loan carrying value:

The loan associated with the Arcelor Mittal Orbit asset is only repayable out of trading profits arising from the asset. Under IAS 39, the Corporation was therefore required to measure the carrying amount of financial liabilities based on the present value of estimated future cash flows relating to that liability. As a result of the updated valuation of the Arcelor Mittal Orbit to reflect the lower visitor numbers the Corporation recalculated the expected cashflows relating to the Arcelor Mittal Orbit loan based on visitor numbers of 150,000. As a result the carrying value of the loan was written down from £9.7m to nil and the accounts were subsequently amended to reflect this.

Finance team arrangements:

Following the departure of the Financial Controller in May 2014, the Corporation appointed external accountants to assist with the production of the accounts and supporting working papers for 2013-14. As noted above, the accounts process was much improved in 2013-14. The Corporation now needs to put in place appropriate arrangements for 2014-15 and future years to ensure there are adequate skills and capacity within the finance department to produce the financial statements and provide robust ongoing financial management, or seek alternative ways of delivering this service.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 25 September 2014. Our audit did not identify any significant matters, although a number of areas were identified where arrangements could be improved. Our main findings for each of the two criteria are set out below.

Securing financial resilience: On the basis that the Corporation is fully funded by the Greater London Authority, we have concluded that the Corporation's arrangements for securing financial resilience are adequate.

Arrangements for securing economy, efficiency and effectiveness: Our focus this year was on this criterion, with specific follow up on our findings from the previous year's assessment. Our review looked at three distinct areas: project management, procurement and risk management; financial management; and asset management. The conclusions from each element of our work are summarised below:

- *Project management, procurement and risk management:* Based on the evidence provided as part of our review of overall procedures and manuals and a sample of two projects, we are satisfied that procedures are appropriate and being complied with. Project documentation such as project initiation documents and business cases were streamlined during the year to focus more clearly on the relevant information. We did identify some minor areas for improvement which we have discussed with management. These included the need to maintain clear records of the financial management discussions between the finance team and project managers for individual projects. Management have provided assurances that this is now being done
- *Financial management:* Our review of the Corporation's budget setting and monitoring arrangements during 2013-14 identified a number of areas for improvement. One of the main issues was the lack of consistent financial reporting in different financial management reports. In the main this resulted from differences in the treatment of over and underspends on multiyear projects. During 2013-14 the management accounts reported the financial position in relation to the current year only, with no adjustment to reflect the impact of previous year underspends on the current year budget. Changes to the management accounts from 2014 mean that underspends are now taken into account in the management accounts. As a result performance is being more consistently reported. We also noted that reports over the Summer of 2014 highlighted a number of potential overspends on the Stadium works, with some specific pressures in relation to the roof works. Whilst we recognise that the extent of overspends has been emerging over recent months, the clarity of reporting the Board on overall potential financial impact of these pressures could in our view have been clearer.
- *Asset management*: The Corporation's Fixed Asset Registers have improved over 2013-14, although there are still some minor improvements which can be

made to further strengthen arrangements. Overall the fixed asset register meets expected standards.

2.3 Whole of government accounts

We reported to the National Audit office on 25 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Corporation is required to prepare for the whole of government accounts. We did not identify any areas of concern.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Corporation's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

3. Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Corporation, as required, significant deficiencies in internal control.

We have not identified any significant weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com