

Annual Audit and Inspection Letter

December 2006



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London Development Agency

Audit 2005/2006

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Agency. It draws on the findings and conclusions from the audit of the Agency that has been undertaken in the last year and from a wider analysis of the Agency's performance and its improvement over the last year.
- 2 The report is addressed to the Agency, in particular it has been written for Board members, but is available as a public document for stakeholders, including members of the community served by the Agency. This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Agency's website.
- 3 The LDA is performing well. Outcomes are improving in many of the key priority areas identified by the Mayor's Economic Development Strategy (EDS). Internally, the LDA has restructured to ensure an intelligence-led approach to investment planning and decisions and is strengthening its improvement planning mechanisms particularly for financial management, budgetary control, performance management as well as improving the systems and skills to underpin project management, delivery and monitoring.
- 4 The LDA is actively contributing and investing in the achievement of wider community outcomes particularly for Black, Asian and Minority Ethnic (BAME) groups, women and people with disabilities. The LDA's wide ranging projects and initiatives are enabling access for the diverse needs of London businesses and local communities.
- 5 The LDA has sufficient capacity both in staffing and finance. However, as a relatively new organisation with a complex and high risk agenda it will need to keep its capacity and skills levels under regular review.
- 6 The LDA's financial standing is sound. Value for money is improving well. Investment priorities are regularly reviewed to ensure these reflect corporate plan output targets. These are closely aligned to Mayoral priorities. Costs compare well to similar organisations and also to performance and outcomes achieved. Efficiency gains have also been achieved over the last three years.
- 7 There are no significant weaknesses in the LDA's corporate arrangements currently which are major barriers to further improvement. The LDA is a self aware, learning organisation which actively seeks to work constructively with a range of partners, its staff, stakeholders and external regulators to achieve sustained improvement. The recent restructuring has been accompanied by a review of decision making which should facilitate improved corporate health and governance.

Action needed by the Agency

- 8** Ensure that the key processes of Risk Management, Procurement and Partnership working are implemented in accordance with the Agency's action plans.
- 9** Keep under review capacity in high risk project areas across the Agency's range of priorities.
- 10** Further develop performance management to ensure a more consistent SMART approach to action and improvement planning.

How is the London Development Agency performing?

The improvement since last year - our Direction of Travel report

- 11 Outcomes are improving in most priority areas identified by key stakeholders. These include the key themes in the Mayor's EDS, such as the gradual improvements in enterprise areas; marketing and promotion has recovered well from the 2005 terrorist attacks; places and infrastructure are also improving. People outcomes are not improving, for example higher than national rates of worklessness remains a key challenge in London.
- 12 Stakeholders are mainly positive about the LDA's work particularly in high profile, major regeneration programmes. Key challenges remain in supporting small and medium enterprises (SMEs) in some areas of employment, diversity and skills development. The LDA's output forecasts for 2006 key objectives look positive overall. Business support and creation is well on track as are priorities for housing and childcare places. Key risks of partial achievement remain with job creation, some skills development areas and private sector investment.
- 13 During 2005/06 the LDA invested over £400m in a comprehensive range of projects to meet agreed priorities to achieve wider community outcomes. Investments were prioritised in close collaboration with partners and stakeholders. Many of the projects are improving wider community outcomes, for example supporting SMEs particularly minority-owned businesses and disabled owners to access Olympic-related and public sector contract opportunities.
- 14 Many equality related targets are being achieved but some are proving to be more challenging. The LDA is the fourth organisation in the UK, from 43,000, to achieve the top category, Level 5, of the Equality Standard for Local Government. This recognises its sustained efforts to mainstream equalities in strategies, projects and programmes.
- 15 The LDA is also progressing well its agreed equality targets in areas of BAME groups' employment. Progress is more mixed in areas of employment for people with disabilities and for women, although for the latter better progress is being achieved for business support and creation.
- 16 A robust, SMART approach to improvement planning has been adopted supported by a sophisticated project management system. Service and business plans also include a SMART approach although this could be sharper in some of the formats including the action plans.

- 17 Between 2003/04 and 2005/06 there has been a good direction of travel in all areas of improvement planning. Key targets are being achieved and in some instances exceeded. Overall performance and project management is linked well between corporate, directorate and individual staff levels. Appropriate linkages are also made with financial performance.
- 18 The LDA has recently carried out a restructuring to achieve more capacity building and stronger cross directorate working. This is to address the complex and high risk agenda facing the Agency. It is also working well to build capacity across RDAs. An example of this is the LDA's work with East of England Development Agency and South East England Development Agency in the Thames Gateway.
- 19 The LDA is strengthening corporate and governance arrangements to secure continuous improvement. It is strengthening health and safety, risk management and evaluation systems to ensure improved transparency of its impact. This includes increased capacity to coordinate and embed evaluation and the LDA's work with the other RDAs on a cross RDA Impact Evaluation Framework.

Financial management and value for money

- 20** Your appointed auditor has reported separately to the Performance and Audit Committee on the issues arising from the 2005/06 audit and provided:
- an unqualified opinion on your accounts on 6 September 2006;
 - An unqualified conclusion on your value for money arrangements on 6 September 2006; and
 - a report on the Best Value Performance Plan (in October 2005) confirming that the Plan has been audited and that it met the relevant requirements.
- 21** In addition your appointed auditor has recently completed (October 2006) its 2006/07 work on the Agency's use of resources in accordance with the methodology and guidance issued by the Audit Commission (the Commission).
- 22** This is the second year of carrying out the assessment and the work has focussed on building on the previous year's assessment and updating it for any changes and improvements. However, it should be noted that the auditor's 2005 review focussed on the four financial themes only and did not cover VFM. In addition, last year's review was "non-scoring". The auditor reported indicative scores for the 2005 exercise to the Agency in our January 2006 Annual Audit & Inspection Letter.
- 23** The Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Agency and the way these are presented to the public);
 - Financial management (including how the 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 the costs and quality of its services).

24 Your auditor has assessed the Agency’s arrangements for use of resources across five themes (refer table 1). Their scored judgement on each of the above five themes has been based on key lines of enquiry, specifically tailored to the LDA’s circumstance. Each key line of enquiry has been scored by reference to descriptions of performance according to the following scale:

- 1 = below minimum requirements – inadequate performance
- 2 = only at minimum requirements – adequate performance
- 3 = consistently above minimum requirements – performing well
- 4 = well above minimum requirements – performing strongly

The Agency’s overall use of resources score has been determined by combining the auditor’s separate scores for each of the themes covered.

Table 1

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

25 The Commission has determined the overall use of resources score by combining the auditor’s separate scores for each of the themes covered. The overall score of 3 was communicated to the Agency on 13 November 2006.

26 The key issues arising from the Use of Resources work, as reflected in the above judgements where appropriate, are as follows.

- The Agency has robust arrangements in place for production and reporting of its annual report and statement of accounts.
- Financial management arrangements (including budgetary control and the Agency’s overall financial standing) are performing well. The Agency has a track record of spending to meet its level of grant funding, although there are risks created by the increased profile of spending in the run up to the 2012 Olympics; this will also see the Agency borrow for funding purposes.
- The Agency has good internal control and governance arrangements and is proactive in keeping its arrangements under review to ensure that they remain fit for purpose.

- The Agency has recognised that its arrangements in relation to Risk Management, Procurement and Partnership working need further work, and it has developed action plans to address the key weaknesses in these areas. The realisation of such improvements is a key driver towards the Agency improving its use of resources score and, moreover, enhancing the achievement of its strategic objectives.
- In relation to value for money (VfM) the Agency has a strong culture of challenge and review of VfM. The corporate plan, procurement code and internal performance reports all indicate that VfM is a constant theme in project selection and monitoring. In addition, efficiency targets are integrated into the directorate business plans and individuals objectives – there is therefore clear evidence that the Agency sets and achieves ambitious targets to improve efficiency and VfM.

Conclusion

- 27 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Risk, Resources and Audit Committee on 31 January 2007.
- 28 The Agency has taken a positive and constructive approach to our audit and inspection. I would like to take this opportunity to express my appreciation for the authority's assistance and co-operation.

Table 2 Reporting

Report	Date issued
Annual Audit and Inspection Plan - 2005/06	June 2005
BVPP audit report – 2005/06	October 2005
ISA 260 Audit memorandum (to those charged with governance)	September 2006
Use of Resources Report (part of 2006/07 work)	November 2006
BVPP audit report – 2006/07	December 2006
Annual Audit and Inspection Letter	December 2006

- 29 The outturn fee for the year is set out in table 3. This shows a total audit and inspection fee for 2005/06 of £145,125, against a planned fee of £145,125.

Table 3 Fee update

Audit area	Plan 2005/06	Actual 2005/06
Accounts	£56,000	£56,000
Use of resources	£53,000	£47,000
BVPP & Performance Indicator	£6,000	£12,000
Total audit fee	£115,000	£115,000
Relationship management	£21,000	£21,000
Total audit and inspection fee	£145,125	£145,125

Ken Davis
Relationship Manager