

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL AUDIT LETTER 2011

DATE: 28 SEPTEMBER 2011

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to inform the Committee of the draft Annual Audit Letter as prepared by KPMG.

2 BACKGROUND

- 2.1 The Annual Audit Letter summarises the conclusions by KPMG on the Annual Statement of Accounts and Value for Money.

3 RECOMMENDATION

- 3.1 The Audit Committee is asked to NOTE the KPMG Annual Audit Letter.

4 CONTACT

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Transport for London

Annual Audit Letter
2010/11

September 2011

Contents

	Page
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This report is addressed to Transport for London ('TfL') and has been prepared for the sole use of TfL. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Wayne Southwood who is the engagement lead to TfL or Trevor Rees, the national contact partner for all of KPMG's work with the Audit Commission. After this, if you still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. You can contact the Complaints Unit by: Phone: 0844 798 3131 (local rate call) Email: complaints@audit-commission.gov.uk Website: www.audit-commission.gov.uk/aboutus/contactus

Textphone (minicom): 020 7630 042 Post: Complaints Unit Manager, Audit Commission
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Slide 2

R2 We reference the Concordant logo in the footnote, but don't actually use it?
RossTudor, 16/09/2011

Section one

Executive Summary

Purpose

This Annual Audit Letter ('the letter') summarises the key issues arising from our 2010/11 audit at Transport for London (TfL). Although this letter is addressed to the Board members of TfL, it is also intended to communicate key issues to external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at www.audit-commission.gov.uk. It is the responsibility of TfL to publish the letter on the TfL website at www.tfl.gov.uk. We have already reported all the issues in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in section 2; and
- *accounts* – that is the Financial Statements and the Annual Governance Statement. This work is summarised in section 3.

Key Messages

The key areas which we draw your attention to are:

- We issued an unqualified audit opinion on the TfL Financial Statements and an unqualified Value for Money conclusion on 3 August 2011;
- The adoption of International Financial Reporting Standards (IFRS) was required by local government bodies for 2010-11. TfL opted to adopt IFRS for all subsidiary companies as well;
- This required the opening balance sheet for TfL as at 1 April 2009 and the Financial Statements for 2009/10 to be converted to IFRS for comparative purposes. We carried out an audit of the restated opening and prior year balances. Our work on the restated balances did not identify any material audit differences. We are satisfied that the prior year and opening balances have been appropriately restated; and
- We identified one audit difference identified as part of our 2010/11 Financial Statements Audit. This arose as a result of asset values in the pension fund increasing in value more than forecast between the date the actuaries prepared their calculations and the year end. The effect is on the balance sheet only and would reduce the pension liability and increase reserves by £19.8m. Management did not deem this amount to be large enough to warrant a late change to the accounts.

Fees

Our audit fee for the Corporation and Group (not including the underlying subsidiaries) audit for 2010/11 was £360,080 excluding VAT (2009/10: £424,575). This fee does not include the underlying subsidiary entities. Our fee for our audit of the IFRS adjustments and related restated balances was £280,000.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Section two

Use of resources

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements. Our responsibility is to assess these arrangements and we give a conclusion on whether or not arrangements are satisfactory.

For 2010/11, auditors are required to give their statutory VFM conclusion based on two reporting criteria specified by the Audit Commission which consider whether TfL has proper arrangements for:

- **Securing financial resilience:** assessing if TfL has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- **Challenging how it secures economy, efficiency and effectiveness:** assessing how TfL is prioritising its resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.

A summary of our key findings is set out below:

Financial Governance - The Board has a well established track record of constructive and timely challenge of financial results, plans and forecasts, with the Finance and Policy Committee primarily discharging this responsibility. Management and officers are aware of the impact that the Government Spending Review has had on TfL.

Financial Planning - The objectives and priorities of TfL have been well established since the new Mayor came in to office in 2008. These were updated in the Mayor's Transport Strategy published in May 2010. The Business Plan not only considers the impact of reduced Department for Transport ('DfT') funding, but also potential reductions in other third party funding. TfL is also able to forecast the potential impact of the economic downturn on fare income, through performing sensitivity analysis on different scenarios of economic growth for London and applying historical elasticities.

Financial Control - TfL, at an aggregated group level, has a good record of operating within its financial budgets and our audit work on the financial statements has consistently concluded that, overall, there is a sound system of financial control. We have raised some suggestions regarding improvements to IT access controls.

Prioritising Resources - TfL have not just focussed on increased cost savings in response to the funding settlement. It has realised that not all previously identified schemes, and their means of delivery, will be able to be continued. As noted previously, it has pared back cosmetic work at stations and deferred non-essential civil works and is also exploring different ways of delivering elements of the Crossrail project, as well as exploring the long term future of Tube Lines.

Improving efficiency and productivity - Each part of the organisation has its own scorecard against which their performance is assessed. The target set for the constituent KPIs that make up the scorecards is at least equal to (in most cases higher than) the forecast outturn for the prior year. Senior Management remuneration is linked to the achievement of these scorecard measures.

Value for Money Conclusion

We issued an unqualified value for money conclusion for 2010/11.

This means that we are satisfied that TfL put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Financial statements

Audit opinion

We issued an unqualified opinion on the TfL Financial Statements on 3 August 2011.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters identified. Our report was presented to the Audit Committee on 15 June 2011.

Accounts production and timetable

- The overall quality of working papers available to us for audit continues to be of a high standard and staff and management responded promptly to audit queries; and
- This was the first year that TfL and the operating businesses have had to apply IFRS. This has been a complex transition given the particular nature of some of the accounting that needs to be applied within TfL. The Group TfL team undertook significant planning to ensure all areas of the transition were managed in a timely fashion with input from us as auditor when necessary.

Audit Adjustments

We identified one audit difference. This arose as a result of asset values in the pension fund increasing in value more than forecast between the date the actuaries prepared their disclosures and the year end. The effect is on the balance sheet only and would reduce the pension liability and increase reserves by £19.8m. Management did not deem this amount to be large enough to warrant a late change to the accounts. We also identified a number of presentational changes to the Financial Statements all of which were processed.

Whole of Government Accounts (WGA)

The deadline for submission of the WGA return to the Department for Communities and Local Government is 1 October 2011. We combined some of our WGA testing with our audit of the accounts and the remaining work will be completed before 1 October.

Appendix 1: Reports issued

We set out below the reports issued during the year.

Report	Date issued
2010/11 Audit Plan Fee Letter	April 2010
2010/11 Financial Statements Audit Plan	November 2010
ISA 260 report to those charged with governance	June 2011
Annual Audit Letter	September 2011

Appendices

Appendix 2: Audit Fees

We set out below our fees to the Corporation and Group for the year ended 31 March 2011.

	2010/11 (Actual)	2010/11 (Plan)	2009/10 (Actual)
Financial Statements and Statement on Internal Control	£311,010	£311,010	£288,000
Use of Resources	£43,570	£43,570	£90,000
Whole of Government Accounts	£5,500	£5,500	£5,500
Additional audit work	-	-	£41,075*
Total Statutory Audit Fee	360,080	360,080	£424,575
IFRS restatement	£280,000	£280,000	-
Non statutory audit work	£51,924***	-	-
Non audit work	£70,112****	-	£180,200**

*Comprises £9,535 in relation to electors enquiries, £21,120 for a review of PFI models and £10,420 in relation to additional work carried out on congestion charging.

** Comprises £169,000 in relation of VAT refund assistance and £11,200 in respect of the VAT helpline

*** Comprises £48,424 in relation to Medium Term Notes Programme updates and £3,500 in relation to the audit of a grant

****Comprises £11,200 in respect of the VAT helpline, £55,602 in relation to the Financial Business Support Function Improvement Project and £3,310 in relation to Payroll Solutions Software Licence.