

TRANSPORT FOR LONDON

BOARD

SUBJECT: REPORT FROM THE MEETING OF THE AUDIT COMMITTEE - 25 NOVEMBER 2008

DATE: 10 DECEMBER 2008

1 PURPOSE AND DECISION REQUIRED

- 1.1 To report to the Board on the meeting of the Audit Committee held on 25 November 2008.

2 BACKGROUND

- 2.1 The main matters considered were the Use of Resources 2007/08, Data Quality Review 2007/08, the Annual Audit and Inspection Letter 2008, the Review of Internal Audit: Action Plan, Update on Critical Accounting Policies and Effectiveness Review of the External Auditors.
- 2.2 The Committee also received routine reports on management actions, strategic risk management progress, final internal audit reports and the internal audit productivity and resources report for Quarters 1 and 2, as well as reports from KPMG on Non-Audit Fees for the year ended 30 September 2008.
- 2.3 After the meeting Committee Members held a scheduled private meeting with the Director of Internal Audit which was followed by an induction session for new members on the role of the Audit Committee.

3 ISSUES DISCUSSED

Strategic Risk Management Progress Report

- 3.1 The Committee received an update on progress with the ongoing development of TfL's risk management process and general risk arrangements. The overall Risk Management Plan for 2008/09 was approved at the previous meeting and Members were updated on recent developments. The Committee noted the report.

Use of Resources 2007/08

- 3.2 The purpose of the paper was to inform the Committee of the work of KPMG in respect of TfL's Use of Resources, on behalf of the Audit Commission. The Use of Resources assessment evaluates how well TfL manages and uses its financial resources, covering five themes, including; financial reporting; financial management; financial standing; internal control; and value for money.
- 3.3 TfL has been assessed as 4 out of 4 (performing strongly) for all categories. This is an extremely strong performance, since only two local authorities out of 388 achieved this level in the 2007 assessments and was a further

improvement on last year's scores from 3 to 4 in two areas.

- 3.4 The Committee welcomed the timely submission of the report, which had historically been presented in January, and asked that their thanks to officers at KPMG, the Audit Commission and TfL who were involved be recorded.

Data Quality Review - 2007/08

- 3.5 As part of its assessments of TfL, the Audit Commission conducts an annual review of the arrangements for securing data quality across the Group. This judgement forms part of the Use of Resources assessment.
- 3.6 Overall, TfL scored as performing well (3 out of 4), consistent with the overall score from last year, although there have been a number of improvements in specific areas. TfL 'performed strongly' (the highest level) in respect of the arrangements over systems and processes and data use and reporting.
- 3.7 Members requested that officers consider developing an action plan in relation to quality training modules under the 'People and Skills' theme, as identified by KPMG. The Committee noted the report.

Annual Audit and Inspection Letter 2008

- 3.8 The Committee considered the Annual Audit and Inspection Letter as prepared by the Audit Commission which summarises the conclusions of KPMG on the Annual Statement of Accounts, Use of Resources and Data Quality. It also includes the Audit Commission's conclusions from its work on TfL's Direction of Travel.
- 3.9 The Audit Commission endorsed KPMG's unqualified audit opinion in all the key areas and highlighted areas of continuous improvement in terms of increased passenger satisfaction, stakeholder engagement and crime reduction. It was also noted that TfL had achieved the highest equality standard (Level 5).
- 3.10 The Committee welcomed the positive findings and congratulated all the officers involved, while recognising the considerable challenges ahead. The Committee noted the Letter.

Audit Commission Update

- 3.11 The Committee received a report informing Members of the developments in respect of TfL's Audit and Inspection regime specified by the Audit Commission, under the new assessments called 'Comprehensive Area Assessments' (CAA). TfL will remain subject to an annual organisation assessment, in common with other Local Government entities, but this will be termed Use of Resources and will be broader in scope than the current arrangements. The Committee noted the report.

KPMG Report on Non-Audit Fees for Six Months Ending 30 September 2008

- 3.12 The Committee received the six monthly report on fees billed by KPMG for non-audit services as required under TfL's policy on external audit services. The Committee noted the report.

Transport Trading Limited Audit Plan – Year Ending 31 March 2009

- 3.13 The Committee considered KPMG's plan for the audit of the financial statements of Transport Trading Limited and its subsidiaries (the TTL Group) for the year ending 31 March 2009. The strategy for the audit of TfL was presented to the Audit Committee in March 2008. The Plan sets out the audit strategy and approach for the TTL Group, developed in consultation with chief officers.
- 3.14 The Committee acknowledged the rapidly changing structure of the TfL Group as set out in the report and the added complexity and challenges. The Committee noted the Plan.

KPMG – Internal Audit/External Audit Protocol

- 3.15 The Committee received a report setting out the internal/external audit protocol which reflected previous discussions with the Committee which had been developed in close consultation with the Director of Internal Audit. The Committee welcomed the report.

Report on Management Actions

- 3.16 The Committee noted a report on those recommendations to management which had not been actioned and were more than 60 days overdue. The Members requested that, due to the high level of compliance the number of actions more than 30 days overdue be reported to future meetings. The Committee noted the report.

Final Internal Audit Reports – Quarter 1 and Quarter 2 2008/09

- 3.17 The Committee received a paper setting out the final audit reports issued in the first and second quarters of 2008/09. There had been 43 final reports, including nine interim that were 'well controlled' and immediately closed as there were no actions. The Committee noted the report.

Quarter 1 and Quarter 2 Productivity and Resources Report

- 3.18 The Committee considered a report setting out the outputs of and use of resources by the Internal Audit team, reflected in a Scorecard covering the first two quarters of the year. The Committee noted the report.

Review of Internal Audit: Action Plan

- 3.19 The Committee received a report on actions taken as a result of the review of the effectiveness of Internal Audit. In accordance with agreed practice, KPMG carried out a review of the effectiveness of the Internal Audit function earlier in the year. KPMG made a number of recommendations to improve guidance and process and the report set out the actions that have been taken to implement them. The Committee noted the report.

Update on Critical Accounting Policies

3.20 The Committee received a report on the Group's critical accounting policies to be used in preparing TfL's Statement of Accounts for the year ending 31 March 2009. The Committee noted the report.

Effectiveness Review of the External Auditors

3.21 The Committee considered a report on the effectiveness of the external auditors. Overall, TfL finance staff were satisfied with KPMG's performance, with some areas for improvement identified which the External Auditors agreed to address.

4 RECOMMENDATION

4.1 The Board is invited to NOTE the report.

5 CONTACT

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