

Date: 16 June 2015

Item: KPMG Report to Those Charged with Governance

This paper will be considered in public

1 Summary

1.1 To report to the Audit and Assurance Committee the key issues identified by KPMG during the course of their audit of the Statement of Accounts for the Transport for London Group for the year ended 31 March 2015.

2 Recommendation

2.1 **The Committee is asked to note this report.**

3 Background

3.1 KPMG have, as required by International Auditing Standards, prepared a report for the benefit of those charged with governance. The report outlines the respective responsibilities of the auditor and TfL, and provides an overview of the status of the audit and accounting policy changes. The report also comments on judgemental areas within the accounts. KPMG's report is attached for the Committee's review.

List of appendices to this report:

Appendix 1 – KPMG's Report to Those Charged with Governance

List of Background Papers:

None

Contact: Andrew Pollins, Interim Chief Finance Officer
Email: AndrewPollins@tfl.gov.uk
Number: 020 3054 8941



cutting through complexity

Transport for London

ISA260 Report to Those Charged with Governance

2014/15

For presentation at the Audit and Assurance Committee

8 June 2015



Notice: About this report

This report is addressed to Transport for London and has been prepared for the sole use of the Transport for London. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointments Ltd (PSAA) website (www.psaa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Robert Brent, the engagement lead to Transport for London, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with the PSAA, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

**The contacts at KPMG
in connection with this
report are:**

Robert Brent

Partner

Tel: +44 (0)20 7311 4736

robert.brent@kpmg.co.uk

Rebecca Pett

Senior Manager

Tel: +44 (0)20 7311 4031

rebecca.pett@kpmg.co.uk

Susan Harris

Senior Manager

Tel: +44 (0)20 7694 8908

susan.harris1@kpmg.co.uk

Malcolm Footer

Senior Manager

Tel: +44 (0)20 7311 4622

malcolm.footer@kpmg.co.uk

	Page
Introduction	3
Headlines	4
Financial Statements	5
Use of Resources	14
Appendices	15
A. ISA260 communication of audit differences	
B. Scope of work as a result of audit exemption	
C. Proposed form of Representation Letter	

Background

This report to those charged with governance is made to Transport for London's (TfL's) Audit and Assurance Committee in order to communicate matters of interest as required by International Standards of Auditing (ISAs) (UK and Ireland), and other matters coming to our attention during our audit work that we consider relevant, and for no other purpose.

As auditors we have a responsibility for forming and expressing an opinion on the Financial Statements that have been prepared by management with the oversight of those charged with governance. The audit of the Financial Statements does not relieve management or those charged with governance of their responsibilities.

Financial Statements	<p>Our work encompassed:</p> <ul style="list-style-type: none"> ■ Audit testing over the key underlying transactions, including revenue streams, expenses, borrowings and capital expenditure. As part of this we have carried out data analytics procedures over journals, payroll and accounts payable; ■ Use of IT specialists to audit key controls across the systems operated, including general IT controls and access rights; ■ Consideration of the key judgment areas including claims and provisions, property valuations, and pension liabilities; ■ Work in specific areas such as treasury activities and grant accounting; ■ Audit testing of the controls over the completion of the Financial Statements; ■ An audit of the Financial Statements and associated disclosure notes; ■ Consideration of your Annual Governance Statement (AGS) to confirm that it is in line with our understanding of the business and meets CIPFA requirements; and ■ For the TfL and TTL Group Financial Statements, audit testing over your consolidation process. <p>The findings of this work support the audit opinion that we issue on your Financial Statements.</p>
Value for Money	<p>Our work in this area focussed on the same two areas as last year:</p> <ul style="list-style-type: none"> ■ Whether there are proper arrangements in place for securing financial resilience; and ■ Whether there are proper arrangements for challenging how TfL secures economy, efficiency and effectiveness. <p>The findings of this work inform our value for money conclusion.</p>

Structure of report

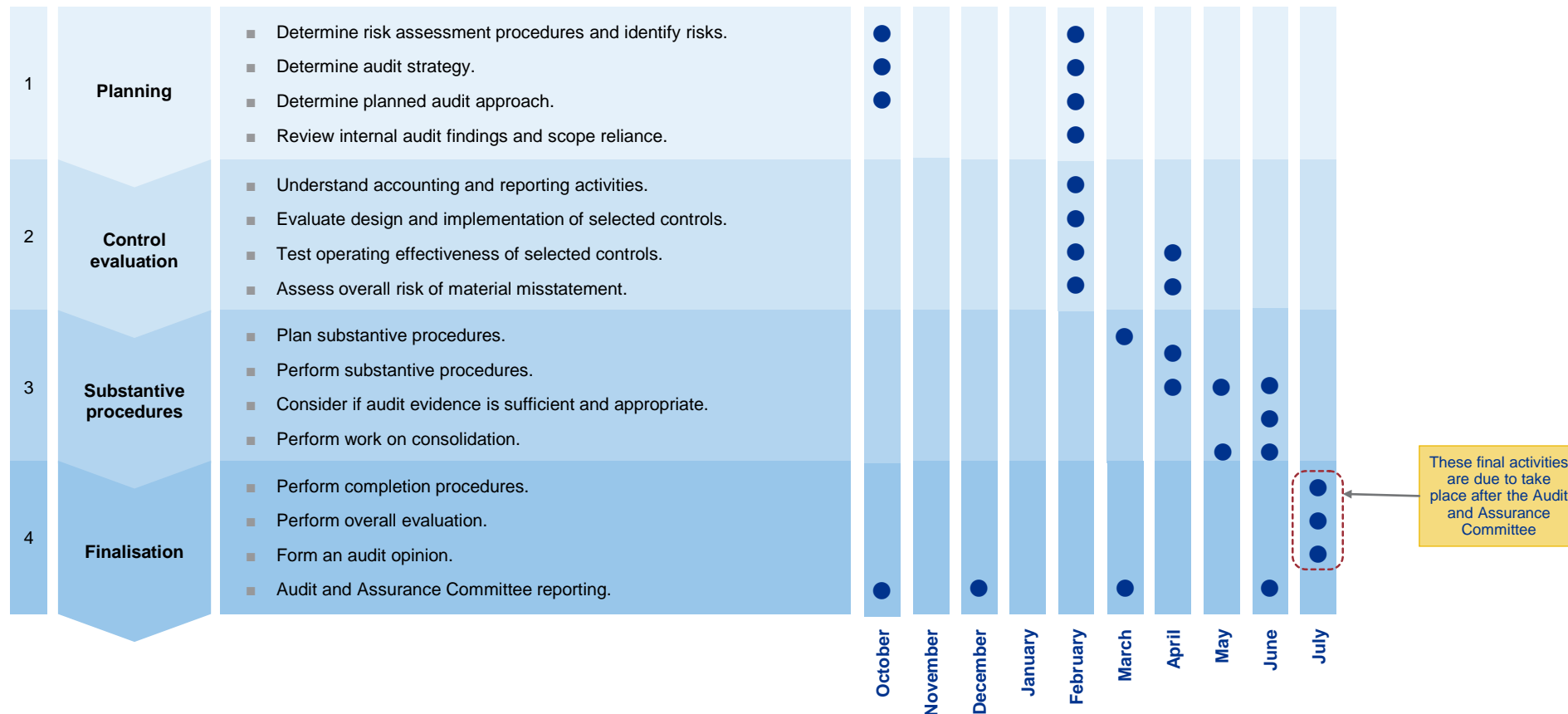
This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our findings on the audit of Financial Statements.
- Section 4 outlines work that has been performed on use of resources.

The table below summarises the work we have completed throughout the year and the results of the audit of your Financial Statements.

Financial Statements	<p>Our audit field work is largely complete although at the time of releasing this report we have not completed our final review of the Financial Statements, which we plan to do immediately prior to signing the accounts. We have reviewed the draft Financial Statements and provided comments, and have no significant concerns to raise with regard to the accounting policies adopted and the disclosures provided. We received the Annual Report and are currently reviewing this to ensure that it is not inconsistent with the Financial Statements.</p> <p>Subject to satisfactory completion of the remaining procedures, including receipt of a management representation letter, we expect to issue an unqualified opinion on TfL's Financial Statements.</p>
Pension accounting	<p>As part of the year end process, management have assessed the accounting policies to ensure that they remain appropriate. This included the pension accounting policy adopted at the TfL Corporation level where there is a choice between following the Code and IFRS. In prior years the accounting policy was based on the Code, resulting in the TfL Corporation not recording the pension deficit on its balance sheet. This year management have concluded that the more appropriate policy is to follow IFRS, and to record the pension deficit on the TfL Corporation balance sheet. There is no impact at a Group level and the Corporation treatment now mirrors that at Group.</p> <p>As in prior years, the final pension valuations were received from the Actuaries late in the process. The final differences were not material to the overall pension deficit, and we have agreed with management that no adjustment is necessary. The impact of this would be to decrease the pension deficit by £31 million (1%) to £2,863.7 million.</p> <p>We have included the adjustment in Appendix A.</p>
Controls	<p>Where we have conducted controls testing, we have not identified any weaknesses and have no concerns or issues to report.</p> <p>We have no unadjusted audit differences to report. The unadjusted difference above related to the final pension valuation was identified by TfL management and we agreed that no adjustment was necessary based on timing and materiality of the amount.</p>
Whole of Government ('WGA') Financial Statements	<p>As in the previous year, we combined some of our testing on the production of the WGA with our regular audit work. We will complete the remainder of our work on the WGA in August 2015 and in order to meet the deadline of 2 October 2015.</p>
Fraud	<p>We have a responsibility to consider material fraud and we addressed this in our assessment of TfL's controls framework. We have also reviewed, in the context of materiality, the arrangements established for the prevention and detection of fraud and corruption.</p> <p>We have not identified any matters related to these areas to bring to your attention, other than those which have already been communicated to you by Internal Audit as part of the six monthly updates on fraud.</p>
Value for Money	<p>Our work on this area is largely complete, we anticipate issuing an unqualified opinion.</p> <p>We are required to certify that we have completed the audit of the Financial Statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. At this time there are no issues that would cause us to delay the issue of our certificate of completion of the audit.</p>

Below are outlined the activities we have completed throughout 2014/15. We have completed these activities in line with our Audit Plan presented to the Audit and Assurance Committee in October 2014. We have highlighted the areas we are yet to complete. There is nothing to indicate this timetable will not be met.



Please note that WGA work is due to take place in August 2015.

We have already reported the key findings from stage one in our previous communications with you. In the remainder of this section, we report our findings from stages two to four and discuss the representations required to complete stage four.

Financial Statements production	<p>We received complete draft Financial Statement packs on 24 April 2015 in accordance with the agreed timetable.</p> <p>We received the consolidation model and draft Group Financial Statements on 18 May 2015 in accordance with the agreed timetable. In addition, we received the Annual Report on 19 May 2015 and are finalising our review of this to ensure that it is not inconsistent with the Financial Statements, and will verbally update the Committee with any findings.</p> <p>The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of CIPFA/LASAAC Code of Practice on Local Authority Accounting.</p> <p>TfL's finance staff were available throughout the audit visit to answer our queries as they arose and the quality of information provided throughout the audit was excellent and provided on a timely basis.</p> <p>We would like to thank the finance team for their co-operation throughout the visit.</p>
Accounting Policies	<p>There has been one change in accounting policy during the year. This is in relation to the treatment of the Public Sector Section of the TfL pension scheme. In prior years the Corporation adopted an accounting policy that applied the multi-employer exemption allowed under paragraph 6.4.1.8 of the Code. Accordingly the Corporation accounted for these plans as defined contribution schemes and the assets and liabilities of these schemes were only recognised at Group level.</p> <p>As a result of its annual assessment of accounting policies TfL has concluded that the Public Sector Section of the TfL Pension Scheme is in the nature of a Group scheme and accordingly the appropriate accounting policy to apply should be based on the requirements of the group scheme provisions of IAS 19. As a result the Corporation has applied a change in accounting policy and now recognises the pension deficit relating to the Public Sector Section on its own balance sheet. The accounts for the Corporation for 2013/14 and 2012/13 have been restated as set out in note 42. There is no impact of this change in accounting policy on the TfL consolidated Group accounts.</p>
Testing	<p>Our findings relating to areas of significant audit risk are shown on slides 8-10 and our findings in relation to other audit areas on pages 11-13.</p>
Representations and opinions	<p>The Chief Finance Officer is required to provide us with representations on specific matters such as TfL's financial standing and confirmation that the financial statements have been prepared in accordance with with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. We are not requesting any specific representations. We have attached a copy of the proposed form of this letter at Appendix C.</p>
Other matters	<p>There were no changes to materiality made in the course of the audit work.</p> <p>We are required under ISA260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. We have not identified any other matters of concern.</p>
Control findings	<p>We have not identified any control findings as part of our audit work.</p>
Data analytics	<p>We have used data analytic tools to test the journal entries, payroll and accounts payable across the Group, allowing us to test 100% of the population and to provide insightful reporting to management where any anomalies are identified.</p> <p>Our data analytics work has not identified any material errors or control weaknesses that impact our audit. We have shared our observations with management as there are some areas worthy of follow up with possible input from Internal Audit, but these do not impact our overall control assessment.</p>

Internal audit	The control environment is reviewed on a day to day basis by TfL's in house Internal Audit team. As part of our audit process we met with the Director of Internal Audit on a quarterly basis and used the findings of Internal Audit to inform our overall risk assessment and procedures.
Audit process	The quality of information provided as part of the audit was good, and all information was received on a timely basis. This year there was a continued focus on the audit from relevant staff which aided a smooth and efficient audit close process.
Consolidation	As in 2013/14 the group accounting team used Cognos in order to consolidate the entity packs to produce the consolidation model that subsequently drives the financial statements. Our procedures over the consolidation process did not identify any material issues.

Next steps

Once we have received the required representations and carried out our subsequent events review we will issue our audit opinion. For 2014/15 this provides confirmation that:

- The Financial Statements give a true and fair view of the financial position of the Group's and the Corporation's affairs as at 31 March 2015 and of the Group's and Corporation's expenditure and income for the financial year then ended; and
- The Financial Statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Independence and objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors. We have provided this declaration in our Independence Letter.

Below we outline the two significant risks that were identified as part of our planning. We have not identified any further risks during the course of our work. Our work and conclusions have been summarised below:

Significant risks	Why	Our audit approach	Findings
Capitalisation of costs	<p>On the majority of projects undertaken within TfL and TTL a judgment needs to be made concerning the split of costs between capital and operating expenditure. In many cases, projects will involve a mix of repairs and maintenance (operating expenditure) and replacement (capital expenditure). Where costs are capitalised the economic useful lives of the asset needs to be determined which involves further judgment.</p> <p>In addition, given the current economic environment there is an increased risk of projects being terminated or suspended, which increases the risk of potential write-offs of assets. The treatment of costs associated with such projects will need to be carefully considered.</p>	<ul style="list-style-type: none"> ■ For a sample of new additions we reviewed the split of capital and revenue and understood how useful lives are determined and monitored; ■ We tested a sample of year end capital and revenue accruals for completeness and accuracy; and ■ We also reviewed transfers from AUC into completed assets. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ Our testing of additions found the split between capital and revenue to be appropriate and that accruals have been completely and accurately recorded. ■ Our testing of assets transferred from AUC to in-use did not identify any instances of assets being incorrectly transferred or retained in AUC.
Completeness of provisions and accruals	<p>TfL is subject to claims from contractors in respect of projects and contracts, as well as disputes in the ordinary course of business (for example, on compulsory purchases).</p> <p>The assessment of the amount to be provided in respect of such claims is a highly subjective matter and could significantly impact the financial position of individual Company's and the Group</p>	<ul style="list-style-type: none"> ■ We met with management to discuss and understand the nature of the claims and how the provisions have been calculated, including reviewing the assumptions underpinning this judgement as well as carrying out a review of any supporting documentation; ■ We met with the Operational Property Manager to determine whether any other claims had been received and reviewed and that the treatment of these claims was appropriate; and ■ We also reviewed the Board minutes and legal costs incurred to identify any potential claims which have not been provided for. . 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ There are robust processes in place to capture and assess all claims arising, with an appropriate level of prudence applied. ■ Appropriate documentation was available in all cases we reviewed to support management's judgment. ■ Our review of board minutes and legal costs did not identify any potential provisions that had not already been identified by management.

Significant risks	Why	Our audit approach	Findings
Completeness of provisions and accruals (cont.)		<ul style="list-style-type: none"> ■ For the Crossrail audit, we tested the process adopted by management to assess all contractor claims. The volume of such claims has risen which is as expected given the point in time for the overall project with various construction phases moving towards completion. 	<ul style="list-style-type: none"> ■ We consider the assessment process within Crossrail to be robust. There is input from the commercial, legal and financial teams, and no issues were identified from our test work.

We highlight significant risks that ISAs require us to raise. Our work and conclusions have been summarised below:

Significant risks that ISAs require us to raise in all cases	Why	Our audit approach	Findings
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>However, most of TfL is a cash based business, therefore fraud risk from revenue recognition is not regarded as significant in this area.</p>	<ul style="list-style-type: none"> ■ Although we rebutted the presumed risk of fraud from revenue recognition, we remained alert to indications of fraud during the course of the audit; ■ We reviewed the revenue collection processes and cash receipting for key commercial revenue streams (fares and ticketing) as well as congestion charging; and ■ We performed walkthroughs of the collection process and applied analytical techniques to assess the completeness of revenue. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ Our extensive work over revenue collection and completeness did not identify any issues.
Fraud risk from management override of controls	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<ul style="list-style-type: none"> ■ Our audit methodology incorporated the risk of management override as a default significant risk; ■ In line with our methodology, both Group and component auditors carried out substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the component's normal course of business, or are otherwise unusual; and ■ We reviewed payroll and procurement transaction using Data Analytics procedures. These procedures help us to highlight where controls could have been bypassed by management. 	<p>No matters to report to Committee.</p> <ul style="list-style-type: none"> ■ We tested the entity wide and higher level controls and no issues were identified. ■ Our data analytics over journal entries did not identify any unexplained or unsupported journals. ■ Our data analytics procedures over payroll and procurement did not identify any instances of management override of controls.

We highlight other areas of audit focus. Our work and conclusions have been summarised below:

Other areas of audit focus	Why	Our audit approach	Findings
Prudential Indicators	<p>Under the Local Government Act 2003 the Mayor must determine and keep under review how much money TfL and the other functional bodies can afford to borrow. TfL may not borrow money if doing so would result in a breach of this limit.</p> <p>TfL has voluntarily developed a set of specific local indicators, referred to as voluntary or discretionary indicators, calculated on the basis of the Group accounts.</p>	<p>We:</p> <ul style="list-style-type: none"> ■ Reviewed TfL's performance against these prudential indicators as part of our audit. As part of our assessment of going concern we reviewed the forecast position for the 12 month period from the date of signing the accounts, in order to assure ourselves that the indicators will not be breached; ■ Reviewed the methodology followed in calculating the indicators; and ■ Re-performed the calculations in the papers to the Finance and Policy Committee; and 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ Borrowing remains within the authorised prudential indicator limit which was approved by the Finance and Policy Committee in March 2015. ■ The methodology for calculating prudential indicators is consistent with the prior year. ■ Our work on borrowings displayed sufficient headroom between the current borrowing position and the Operational and Authorised borrowing limits.
Treasury	<p>Outstanding derivative contracts need to be tested for hedge effectiveness in line with IFRS guidance.</p> <p>There are extensive disclosures in group and subsidiary accounts.</p>	<p>We:</p> <ul style="list-style-type: none"> ■ Tested the hedge effectiveness testing system (Quantum); ■ Reviewed the results of both prospective and retrospective hedge effectiveness test on outstanding contracts; ■ Challenged management's assessment that hedge forecasted borrowings are still highly probable; ■ Reviewed Treasury Board Policy and meeting minutes of the Finance and Policy Committee; and ■ Reviewed key IAS 39 accounting policies and IFRS 7 disclosures within the Group Accounts. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ The Treasury department retains appropriate documentation to support the accounting applied and we concur with the results of the hedge effectiveness testing. ■ No issues were identified in relation to Quantam. ■ Disclosures within the Financial Statements are appropriate.

We highlight other areas of audit focus. Our work and conclusions have been summarised below:

Other areas of audit focus	Why	Our audit approach	Findings
Grants and Funding	<p>TfL currently receives the majority of its funding through the Transport Grant from the DfT. The specific amounts are agreed as part of each spending review. The amounts set out in the funding agreement are then used as a basis for TfL's financial plans, including the Investment Programme.</p> <p>The Crossrail project is funded through a variety of mechanisms, the significant elements of which are passed through the DfT and through TfL. Of the £14.8 billion funding required over the life of the project some £7.1 billion will be provided by TfL through a variety of sources.</p> <p>There are a number of conditions attached to both the government funding (mainly associated to the delivery of the TfL Business Plan and Investment Programme) and the Crossrail project funding which must be met to ensure this funding is continued.</p>	<p>We:</p> <ul style="list-style-type: none"> ■ Reviewed the conditions attached to the funding and assessed TfL's actual and forecast compliance with them; ■ Reviewed correspondences with agencies such as the GLA and the DfT to understand the arrangements for future years, and ensured TfL's financial plans had taken the changes in arrangements into account; ■ Held discussions with project/business accountants on all significant projects and corroborated that through discussions with senior management to identify any issues; ■ Agreed grants awarded to TfL to source documentation and reviewed the accounting treatment of these ; and ■ Reviewed the allocation of Grants and Prudential Borrowings across the Group as part of the consolidation process. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ The processes employed to monitor the grants and funding, including allocation across the numerous projects, is operating effectively.
Property valuations and process controls over transactions	<p>TfL has a significant property portfolio subject to valuation, part of which is done internally.</p> <p>The classification between investment properties and infrastructure under IFRS is judgemental.</p>	<p>We:</p> <ul style="list-style-type: none"> ■ Used our valuation specialists to independently challenge management's assumptions; ■ Held discussions with DTZ and Jones Lang LaSalle along with the TfL Property team; ■ Performed walkthroughs over property additions and disposals and subsequent recording in SAP; and ■ Substantively tested documentation and audit trail over property additions and disposals including review of lease contracts and accounting thereof. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ We are satisfied that the key assumptions applied are within an acceptable range ■ Our work over the completeness of properties did not identify any issues..

Other areas of audit focus	Why	Our audit approach	Findings
Defined benefit pension	<p>There is a significant pension deficit on group balance sheet.</p> <p>The valuation subject to complex actuarial assumptions.</p>	<p>We:</p> <ul style="list-style-type: none"> ■ Involved our actuarial specialists to independently challenge management's assumptions and communicated with Punter Southall and Barnett Waddingham; ■ Reviewed the appropriateness of the IAS 19 valuation methodology; and ■ Agreed underlying data sent to actuaries and agreed asset values to underlying investment managers statements. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ We are satisfied that the key assumptions applied are within an acceptable range.
Contactless payment	<p>This is the first year that a significant proportion of revenue will be generated using contactless payment.</p> <p>The controls and processes over contactless payments differ to those in relation to Oyster.</p>	<p>We</p> <ul style="list-style-type: none"> ■ Reviewed the IT systems and controls in place over contactless payment using our IT specialists; ■ Performed a walkthrough of the system and manual and automated controls in place; and ■ Performed analytical procedures over revenue from contactless payment. 	<p>No matters to report to the Committee.</p> <ul style="list-style-type: none"> ■ Our test work over contactless payment revenue was completed with no issues arising and no audit differences identified.

Introduction

We have a responsibility to assess the extent to which proper arrangements have been put in place to secure economy, efficiency and effectiveness in TfL's Use of Resources (UoR). We give a conclusion on whether or not arrangements are satisfactory. To fulfil this responsibility we are required to review TfL's corporate performance management and financial management arrangements.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Criteria and scope of our work	Key findings from our work
<p>1. Securing financial resilience</p> <p>The organisation 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.</p>	<p>We have concluded that Transport for London has effective systems and processes in place to manage financial risks. These include:</p> <ul style="list-style-type: none"> ■ Budgetary control, which remains effective with transparent reporting of the financial position to the Board and the Finance and Policy Committee. Quarterly operational and financial performance reports link financial and non-financial performance, including trend analysis, allowing users to make informed decisions. ■ Business planning, this is also effective with appropriately detailed medium and long-term plans in place demonstrating a focus on developing sustainable business into the future. ■ A comprehensive strategic risk register, received by the Audit and Assurance Committee, which enables the organisation to manage its financial risks.
<p>2. Securing economy, efficiency and effectiveness</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>We have concluded that Transport for London is effectively prioritising resources. Evidence includes:</p> <ul style="list-style-type: none"> ■ Transport for London is actively managing the reduction in Government grant that it is receiving. The 2015/16 budget includes significant savings targets in order to address the £220 million reduction in DfT grant. Transport for London have made £12 billion of savings between 2009 and 2014 with a budget £4 billion to be made between 2015 and 2021. ■ The business plan is balanced, with expenditure fully funded through income, Government grant and borrowing.

The answers to these questions were completed based on our understanding from previous years, incorporating any changes during the year. Our work on the Financial Statements (for example, our review of going concern) provided additional evidence in forming our opinion on value for money.

VFM Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission 2014/15, we are satisfied that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Appendices

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit and Assurance Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of TfL for the year ended 31 March 2015.

Unadjusted differences

As in prior years, the final pension valuations were received from the Actuaries late in the process. The final differences were not material to the overall pension deficit, and we have agreed with management that no adjustment is necessary. The impact of this would be to **decrease** the pension deficit by £31 million (1%) to £2,863.7 million.

Adjusted audit differences

We note there were no adjusted audit differences.

Presentational Issues

We identified minor presentational issues during our audit, all of which have been amended by the management. We are currently reviewing the disclosures in the Financial Statements.

Other matters

There are no other matters which we need to bring to the attention of those charged with governance.

Scope of work as a result of the Audit Exemption

As in the prior year TfL has taken the audit exemption for all of the TTL subsidiary entities (with the exception of Crossrail Ltd, Victoria Coach Station Ltd, LTIG Ltd * and London Transport Museum Ltd) as set out in section 479A of the Companies Act 2006. * We note LTIG Ltd is a TfL subsidiary and has been included here for completeness.

- This requires a parent company (in this case TTL) to issue and file a guarantee with Companies House whereby the parent becomes the guarantor of each and every liability of the subsidiary existing at that year-end until it is satisfied in full. This covers liabilities recognised at the balance sheet date, and also 'all outstanding liabilities' so would also include future lease or pension liabilities and will include contingent and prospective liabilities, since these are a variety of liability.
- There is no exemption from preparing and filing the subsidiary accounts; the key change will be that there will be no audit opinion issued on the subsidiary accounts where the exemption is applied. In the prior year we carried out full audits to local materiality for each of the subsidiary entities and provided audit opinions on each set of financial statements.
- For those entities not requiring a statutory audit we applied group materiality and as such the scale of our detailed testing was reduced and for some entities we did not carry out any work at all. We still audited the major projects and the coverage over expenditure, claims and accruals remained unchanged. However the level of testing over smaller accounts within subsidiary entities (e.g. inventory, prepayments, etc.) was substantially reduced.
- We shall only review the financial statements of the entities requiring a statutory audit.
- We have set out the level of detailed testing we will carry out over each entity in the table below.

Statutory Audit required to local materiality	Entity a critical component (significant work was carried out approx 90% of the work carried out in the prior year)	Entity a major component (some work was carried out approx 50% of the work carried out in the prior year)	No work required and no audit work performed
<ul style="list-style-type: none"> ■ TfL Group ■ TfL Corporation ■ TTL Group ■ Crossrail Ltd ■ Victoria Coach Station Ltd ■ LTIG ■ London Transport Museum Ltd ■ London Transport Museum (Trading) Ltd. 	<ul style="list-style-type: none"> ■ London Underground Ltd ■ London Bus Services Ltd ■ LUL Nominee BCV Ltd ■ LUL Nominee SSL Ltd ■ Tube Lines Ltd. 	<ul style="list-style-type: none"> ■ Rail for London Ltd ■ Docklands Light Railway Ltd ■ Tramtrack Croydon Ltd ■ Transport for London Finance Ltd 	<ul style="list-style-type: none"> ■ City Airport Rail Enterprises plc ■ Woolwich Arsenal Rail Enterprises Ltd ■ City Airport Rail Enterprises (Holdings) Ltd ■ Woolwich Arsenal Rail Enterprises (Holdings) Ltd ■ London Buses Ltd ■ London River Services Ltd

To be provided to
KPMG on TfL letter
headed paper

Robert Brent
Partner
KPMG LLP
15 Canada Square
London
E14 5GL

9 July 2015

Dear Robert

This representation letter is provided in connection with your audit of the financial statements of Transport for London Group ("the Group") and Transport for London ("the Corporation"), for the year ended 31 March 2015, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Group's and Corporation's as at 31 March 2015 and of the Group's and Corporation's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

These financial statements comprise the Group and Corporation Movement in Reserves Statements, the Group and Corporation Comprehensive Income and Expenditure Statements, the Group and Corporation Balance Sheets, the Group and Corporation Cash Flow Statements and the related notes.

I confirm that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

I confirm that, to the best of my knowledge and belief, having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial statements

1. I have fulfilled my responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Group and Corporation as at 31 March 2015 and of the Group's and Corporation's expenditure and income for the year then ended; and

- ii. Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Group and Corporation in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. I have provided you with:
 - access to all information of which I am aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from me for the purpose of the audit; and
 - unrestricted access to persons within the Group and Corporation from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. I confirm the following:

- i. I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii. I have disclosed to you all information in relation to:

- a. Fraud or suspected fraud that I am aware of and that affects the Group and Corporation and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
- b. Allegations of fraud, or suspected fraud, affecting the Group's and the Corporation's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the I acknowledge my responsibility for such internal control as I determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. I have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. I have disclosed to you the identity of the Group's and Corporation's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

11. I confirm that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Group's and Corporation's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Group and Corporation to continue as a going concern.

12. On the basis of the process established by the Group and Corporation and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with my knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

I confirm that:

- c) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b. all plan amendments, curtailments and settlements have been identified and properly accounted for.

These financial statements were approved by the Board on [1] July 2015.

Yours sincerely,

Andrew Pollins
Chief Finance Officer

Appendix to the Representation Letter of Transport for London: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transactions

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the “reporting entity”).

- a. A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b. An entity is related to a reporting entity if any of the following conditions applies:

Related party (cont.)

- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii. Both entities are joint ventures of the same third party.
- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.



cutting through complexity

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.