

Audit and Assurance Committee



Date: 11 October 2017

Item: Annual Audit Letter

This paper will be considered in public

1 Summary

- 1.1 To inform the Audit and Assurance Committee of the status of the Annual Audit Letter issued by EY.

2 Recommendation

- 2.1 **The Committee is asked to note the letter.**

3 Background

- 3.1 The Annual Audit Letter is prepared by EY and summarises their conclusions on the Annual Statement of Accounts and Value for Money. This letter is issued at the conclusion of the annual audit process and following certification of the Whole of Government Accounts return in late September/early October each year.

4 Update

- 4.1 EY issued unqualified opinions on the TfL financial statements, including the value for money conclusion, and on the Whole of Government Accounts return.
- 4.2 EY certified the Whole of Government Accounts return on 22 September and this has now been submitted to HM Treasury.

List of appendices to this report:

Appendix 1: EY's Annual Audit letter 2016/17

List of Background Papers:

None

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Transport for London

Annual Audit Letter for the year ended 31 March 2017

September 2017

Ernst & Young LLP

Contents

Executive Summary	2
Purpose.....	6
Responsibilities.....	8
Financial Statement Audit	10
Value for Money	13
Other Reporting Issues.....	16

Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Transport for London following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

The National Audit Office's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to Transport for London following completion of our audit procedures for the year ended 31 March 2017. This Annual Audit Letter ('the letter') summarises the key issues arising from our 2016/17 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 PSAA website at www.psaa.co.uk. It is the responsibility of TfL to publish the letter on the TfL website at www.tfl.gov.uk.

Our Audit Plan was discussed with the Audit and Assurance Committee on 11 October 2016. There were no changes in scope during the execution of our work.

We have already reported the majority of points discussed in this letter to you, our detailed findings were reported to the 13 July 2017 Audit and Assurance Committee. Since that date we completed the outstanding procedures in order to issue our audit report.

We audited Transport for London's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2017.

We have also completed our procedures on the accuracy of the consolidation pack TfL needs to prepare for the Whole of Government Accounts, no issues were found with this work and our report was issued on 22 September 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on Transport for London's ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Group and Corporation as at 31 March 2017 and of the Group's and Corporation's expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Financial information in the Annual report and published with the financial statements was consistent with the Annual Accounts.
Concluding on the Transport for London's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of Transport for London.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to Transport for London, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of TfL's Whole of Government Accounts return (WGA).	We had no matters to report

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of Transport for London communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 13 July 2017
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 22 September 2017

We would like to take this opportunity to thank Transport for London's staff for their assistance during the course of our work.



Karl Havers

Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of Transport for London.

We have already reported the detailed findings from our audit work in our 2016/17 annual results report to the 13 July 2017 Audit and Assurance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for TfL.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 October 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- On the 2016/17 financial statements;
- On the consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of Transport for London;
- Any significant matters that are in the public interest.
- Forming a conclusion on the arrangements Transport for London has in place to secure economy, efficiency and effectiveness in its use of resources.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of Transport for London

Transport for London is responsible for preparing and publishing its statement of accounts, annual report and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Annual Report and Accounts is an important tool for Transport for London to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Transport for London's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 22 September 2017.

Our detailed findings were reported to the 13 July 2017 Audit and Assurance Committee. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of controls	We have not identified any material weaknesses in controls or evidence of material management override.
Revenue and expenditure recognition	Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.
Inappropriate capitalisation or potential impairment of capital projects	Our testing has not revealed any material misstatements in respect of capitalised expenditure and the carrying value of material capital projects.
Significant accounting estimates, including complexity of provisions and accruals	We noted an immaterial amount of £5.6 million which did not meet the conditions for recognition, however this is not material and is reported in our unadjusted differences. There were no other matters to report.
Complexity of accounting for TfL's property portfolio	Our testing has not revealed any material misstatements in respect of accounting for the property portfolio.

Significant Risk	Conclusion
Judgmental assumptions impacting on TfL's pension deficit	Our testing has not revealed any material misstatements with respect to pension accounting.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

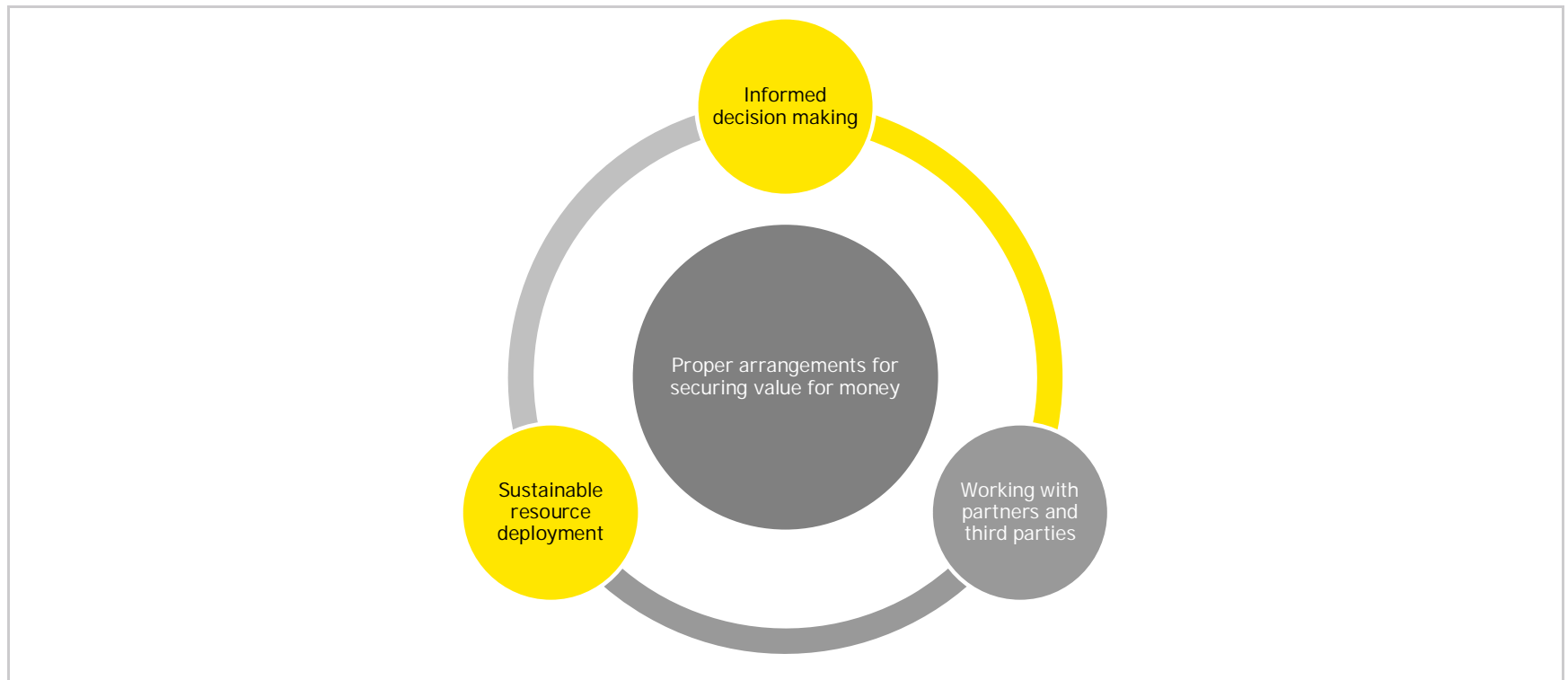
Value for Money

Value for Money

We are required to consider whether Transport for London has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



Our value for money conclusion was unqualified. The key findings identified as part of our value for money procedures were as follows:

Significant Risk	Conclusion
<p>Sustainable resource deployment – Significant risk</p>	<p>Through its year end capital and revenue outturn, annual budget setting, use of reserves and its medium term financial planning, TfL continues to plan well to secure sustainable resource deployment.</p> <p>The 2017/18 budgeting process is soundly based. Arrangements underpinning the 2017/18 budget are considered good, with TfL leveraging the work being performed elsewhere as part of the cost reduction programme.</p> <p>Some of the future opportunities and challenges facing TfL include:</p> <ul style="list-style-type: none"> • government funding and grant reductions, reducing in 2017/18 by 49% compared to 2016/17, then reducing to nil in 2018/19; • planning for future assumptions on fare inflation, growth and charges; • volatility in business rate income forecasts that the GLA itself is subject to, and the impact this may have on future levels of business rates income due from GLA; and • Impact on capital projects of changes in policy and funding. <p>These are particularly challenging aspects to budget for, adding a significant degree of uncertainty to TfL’s funding position in the medium term.</p> <p>Bridging the substantial funding deficit of the future is also heavily dependent on the effective execution of the commercialisation programme and the cost reduction programme.</p>



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by Transport for London for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in Transport for London's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by Transport for London or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires Transport for London to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Assurance Committee on 13 July 2017. In our professional judgement the firm is independent of TfL and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit and Assurance Committee.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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