

Annual Audit and Inspection Letter

December 2006



Annual Audit and Inspection Letter

Transport for London

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; and
- 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 and 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.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Our overall summary

- 1 This letter provides an overall summary of the Audit Commission's assessment of TfL during 2006. It draws on the findings and conclusions from the audit that has been undertaken in the last year and from a wider analysis of both your performance and improvement over the last year.
- 2 The report is addressed to TfL, 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 TfL. This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk.
- 3 This has been another year of strong progress for TfL. There has been continued improvement in the usage of bus, London Underground and Docklands Light Railways transport systems. Public satisfaction levels with these services have either improved or remained at a high level. Investment in public transport continues at an unprecedented level. TfL has effective systems in place to ensure that value for money is achieved through this investment.
- 4 You have received an unqualified opinion on your accounts; a conclusion on your VfM arrangements to say that these arrangements are adequate; and a performing strongly judgement on your Use of Resources. Taken together these indicate a strong performance overall for TfL.

How is Transport for London performing?

The improvement since last year - our Direction of Travel report

- 5 In November 2004 TfL was assessed as an 'excellent' authority following the Initial Performance Assessment (IPA) undertaken by the Audit Commission. This Direction of Travel (DoT) assessment builds on our previous work.
- 6 TfL is making good progress. This can be demonstrated by its approach to the issues that arose from the IPA. Whilst not required to, TfL produced a separate formal improvement plan with the Audit Commission to:
 - ensure appropriate arrangements are in place to deliver the organisational improvement; and
 - demonstrate commitment to continuous improvement.
- 7 Good progress has been made in completing the actions in the improvement plan. To date of the previously agreed 49 actions included in the original improvement plan 42 have now been completed, the remaining 7 actions are ongoing, and in addition 4 new ones have been added to the plan. An area which remains work in progress is the effort being expended to achieve the objective of a 'One TfL' culture across the whole business.
- 8 Public satisfaction levels are monitored and satisfaction level surveys include questions about timeliness, staff behaviour and perception of safety from the passengers' perspective. The satisfaction levels which were reported in TfL's Annual Report 2006 show an improvement in the previous year from 74 per cent to 77 per cent for bus users, and maintained at 78 per cent for Docklands Light Railways users and 78 per cent for London Underground users.
- 9 TfL has a robust approach to improving the usage of bus, London Underground and Docklands Light Railways transport systems. For example, from December 2005 all London buses have been fully accessible to users with restricted mobility, all buses also now have CCTV and audible signage is the process of being introduced on buses.
- 10 One of the priorities for the Mayor for London is a greener city and TfL contributes to the overall achievements of this by investment of 4500 Cycle parking spaces at London Underground and interchange places. In addition TfL has expanded the London Cycle Network to cover an area of 500 kilometres.
- 11 TfL set itself ambitious efficiency savings targets of £148 million in the 2005/06 year and exceeded them with £222 million. The long term target between 2002/03 and 2009/10 is to achieve efficiency savings across the whole business of over £1 billion.

- 12 The Equality Standard for Local Government in services and employment in England is designed to ensure that local authorities have systems in place to consider gender, race and disability equality issues at all levels of policy and practice. TfL has, through independent assessment, been judged to have achieved Level 4 (the top level is 5).

Financial management and value for money

Audit of the financial statements

- 13 Your appointed auditor has reported separately to the audit committee on the issues arising from the 2005/06 audit and has provided:
 - an unqualified opinion on your accounts;
 - a conclusion on your VfM arrangements to say that these arrangements are adequate; and
 - an unqualified opinion on your Best Value Performance Plan.
- 14 Your financial statements were produced well within the statutory deadline and KPMG LLP issued an unqualified audit opinion on those accounts on 21 August 2006. KPMG LLP also issued an unqualified opinion on your arrangements for securing economy, efficiency and effectiveness in the use of resources. This was the first year that such an opinion has been required on your use of resources.
- 15 The accounts production and audit timetable for the year ended 31 March 2006 was accelerated by some four weeks compared to the process in 2005. Although production of the accounts within the statutory deadline of 30 June was achieved, some of your businesses found this challenging. The accounts and audit timetable for the year ending 31 March 2007 should be reviewed with your auditors to improve the process for next year. You also experienced delays in the production of your Annual Report for the year ended 31 March 2006, and you are currently planning to reconsider your processes and timing over its production for next year.
- 16 During 2004/05 and 2005/06, you have undertaken prudential borrowing to provide a funding source for the investment programme along with funding to be made available by the Government in the form of Transport Grant. The funding agreement with Government in respect of prudential borrowing includes a borrowing profile. As a result of this agreed borrowing profile, some borrowing may be in advance of actual cash need. This results in significant cash balances in the Corporation's balance sheet in the short term.
- 17 TfL operates many large and complex projects and contracts which give rise to claims in the normal course of business. It is noted that progress has been made in improving communications between operational, legal and finance teams, to ensure the finance teams have all available information on claims received and likely to arise when considering the need for provisions and disclosures in the accounts.

Use of Resources

- 18 This is the second year that your auditor has carried out a Use of Resources assessment. In 2005, the indicative assessment covered four areas (financial reporting, financial management, financial standing and internal control). The approach for 2006 has focused on building on this work and updating it for any changes and improvements to your arrangements. This year, for the first time, we have also completed an assessment of a fifth area, value for money.
- 19 Your auditor has assessed your arrangements for use of resources in 2005/06 in these five areas as follows. Overall, TfL is performing strongly. This is the highest category.

Table 1

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

(Note: 1=lowest, 4=highest)

Data Quality

- 20 The scope of your Performance Indicator audit for 2005/06 was expanded this year to include a review of the corporate management arrangements over data quality and whether you have a track record of using high quality information on costs to actively manage performance, improve value for money and target resources. KPMG LLP assessed that you performed well in respect of your arrangements over systems and processes and data use.

Closing remarks

- 21 This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be presented at the Audit Committee on 24 January 2007.
- 22 Further detailed findings, conclusions and recommendations on the areas covered by the audit are included in the reports issued to you during the year. These are listed in Table 2.

Table 2 Reporting

Report	Date issued
Annual Audit and Inspection Plan	March 2005
Group Highlights Audit memorandum (to those charged with governance)	June 2006
Data Quality Report	November 2006
Use of Resources Report	December 2006
Annual Audit and Inspection Letter	December 2006

- 23 The outturn fee for the year is set out in Table 3. This shows a total audit and inspection fee for 2005/06 of £373,500, against a planned fee of £373,500.

Table 3 Fee update

Audit area	Plan 2006	Actual 2006
Accounts	£265,000	£265,000
Use of resources	£90,000	£90,000
Total audit fee	£355,000	£355,000
Inspection	£18,500	£18,500
Total audit and inspection fee	£373,500	£373,500
Certification of grants and returns	£15,000	£8,415
Efficiency Review	£15,000	£15,000

- 24** TfL has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for your assistance and co-operation.

Ken Davis

Relationship Manager

December 2006