

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL AUDIT LETTER 2009/10

DATE: 28 SEPTEMBER 2010

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.

2.2 In previous years, this letter has also reported on Use of Resources. This work was ceased by the Audit Commission in May. The results of the audit work that was undertaken to this point are summarised in the Letter.

3 RECOMMENDATION

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

4 CONTACT

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Public Sector

Annual Audit Letter 2009-10

Transport for London
September 2010

AUDIT

Contents

	Page	
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This report is addressed to 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 June Awty 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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Section one

Executive Summary

Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2009/10 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 Statement on Internal Control. This work is summarised in section 3.

Key Messages

The key areas which we draw your attention to are:

- We issued unqualified audit opinions on the TfL Financial Statements and on its Value for Money Conclusion on 6 August 2010;
- On 7 May 2010, TfL agreed to acquire the equity shares in Tube Lines Limited from Bechtel and Amey (Ferrovial) for £310 million. This was disclosed appropriately in the TfL Group accounts for 2009/10 as a 'non-adjusting' post balance sheet event;
- The 2009 SORP introduced changes to the accounting approach for PFI/PPP schemes, which required these schemes to be assessed under the requirements of International Financial Reporting Interpretation Committee (IFRIC) 12. In all other respects, the accounts have been prepared on the basis of policies consistent with the prior year;
- We identified one audit difference relating to an understatement of the pension deficit by £17.6 million. The difference was considered immaterial in the context of the total pensions deficit and Group net assets and was not adjusted by management; and
- The Audit Commission announced that the Use of Resources assessment ceased with immediate effect in May 2010. We are will therefore not be providing scores in respect of the 2010 Assessment.

Fees

Our audit fee for the Corporation and Group audit for 2009/10 was £424,575 excluding VAT (2008/09:£533,370).

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 main elements of our use of resources work are:

- *Use of Resources (UoR)* - we assess how well you manage and use resources and have provided detailed commentary in a separate report to management; and
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment and on the local reviews carried out.

Use of Resources

- In May 2010 the Audit Commission announced that the Use of Resources assessment would cease with immediate effect. We completed our work on the 2010 assessment in March and April 2010. Even though the assessment was completed, we have been advised by the Audit Commission not to share indicative scores with audited bodies. We have reported the themes of our work in the UoR report and set out the key areas of improvement from last year below:
 - The planned deadline for signature of the statutory accounts of the TfL Group and subsidiaries continue to be significantly earlier than those achieved by most local authorities. There has been significant improvement in the quality of accounts prepared by all entities businesses this year, and in the timeliness of information available for audit;
 - The introduction of a new data quality initiative in 2009/10 has ensured management are focused on key data streams supporting business critical performance indicators. This framework, supported by the newly established Data Quality Team, has delivered improvements in the consistency, accuracy and reliability of reported information;
 - There has been a demonstrable improvement in induction procedures and a renewed focus on the Code of Conduct. The review of Committees and Panels carried out in 2009 has had a positive impact in providing clarity on the objectives and focus of Committees and Panels to support decision making and improved outcomes throughout 2009/10; and
 - There have been continuing developments in risk management arrangements and improved risk management training has yielded high satisfaction scores. TfL was highly commended by Strategic Risk Magazine in their Enterprise-wide Risk Programme of the Year awards 2010.

Value for Money Conclusion

- We issued an unqualified value for money conclusion for 2009/10.
- This means that we are satisfied that you put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Section three

Financial statements

Audit opinion

- We issued an unqualified opinion on TfL's group accounts on 6 August 2010. We have also confirmed that the information presented in the Annual Governance Statement is consistent with the accounts and complies with statutory guidance.
- 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 2010.

Accounts production and adjustments to the accounts

- The timetable for preparation of group and subsidiary company accounts was similar to the prior year, and deadlines have been substantially met at each reporting level;
- 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;
- The adoption of IFRIC 12 was dealt with well by management; and
- We identified a small number of minor presentational adjustments to the notes to the group accounts, all of which were corrected by Management. In addition, we identified one audit difference relating to an understatement of the pension deficit by £17.6 million. The assets valuation for the Public Sector Section of the TfL Pension Fund was based on a roll-forward of February assets (in the absence of March data). This gave a figure £17.6 million higher than the final end of March assets valuation i.e. assets were overstated and the pension deficit and pension reserve were both understated. The difference was considered immaterial in the context of the total pensions deficit and Group net assets and was not adjusted by management.

International Financial Reporting Standards (IFRS)

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). Transport for London has started preparing for this transition through identifying the key differences and taking steps to restate their opening balance sheet and the 2009/10 comparative figures. We are planning to audit this restatement in November 2010.

Whole of Government Accounts (WGA)

- The deadline for submission of the WGA return to the Department for Communities and Local Government is 1 October 2010. We combined some of our WGA testing with our audit of the accounts and the remaining work will be completed before 1 October.

Appendices

Appendix 1: Reports issued

We set out below the reports issued during the year.

Report	Date issued
2009/10 Audit Plan Fee Letter	April 2009
2009/10 Audit Plan	September 2009
ISA 260 report to those charged with governance	June 2010
Use of Resources	September 2010
Annual Audit Letter	September 2010

Appendices

Appendix 2: Audit Fees

	2009/10 (Actual)	2009/10 (Plan)	2008/09 (Actual)
Financial Statements and Statement on Internal Control	£288,000	£288,000	£264,500
Additional audit work	£41,075*	-	£49,870
Use of Resources	£90,000	£90,000	£112,500
Whole of Government Accounts	£5,500	£5,500	£5,500
Total Statutory Audit Fee	£424,575	£383,500	£433,370
Non statutory audit work	£0	-	£69,583
Non audit work	£180,200**	-	£83,150

* 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.