Audit and Assurance Committee

Date: **7 December 2012**

Item 5: **External Audit Plan Update TfL, TTL and Subsidiaries - Year Ending 31 March 2013**

This paper will be considered in public

1 Summary

1.1 To present to the Audit and Assurance Committee an update to the Audit Plan considered at the 4 October 2012 meeting, including the annual Audit Fee proposed by KPMG for the audit of the financial statements of Transport for London and its subsidiary companies for the year ending 31 March 2013. This includes the fee for the audit of the Transport Trading Limited Group and all subsidiary companies.

2 Recommendation

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

3 Background

3.1 The proposed total fee for the audit of the TfL Group for the year ended 31 March 2013 is £1,464k. This represents a reduction of £121k compared with that for the previous year.

3.2 The fee for TfL Corporation and Group has been reduced significantly by the Audit Commission.

3.3 There is a net increase in the fee for TTL Group, with inflationary increases together with scope changes only partially offset by efficiencies.

3.4 There is an increase in fee proposed for Crossrail from £106,000 to £118,000 reflecting the increase in activity. [This fee has not yet been agreed by Crossrail.]

3.5 It should be noted that there is a potential change in audit materiality, imposed by the auditor of the GLA, Ernst & Young, due to TfL's inclusion in GLA Group accounts. KPMG have indicated that they may seek additional fees if materiality is changed. TfL will consider KPMG's request if the circumstances arise.

List of appendices to this report:

Financial Statements Audit Plan 2012-13 Update from KPMG

List of Background Papers:

None

Contact:	Andrew Pollins, Chief Finance Officer
Email:	AndrewPollins@tfl.gov.uk
Number:	020 7918 4673

Transport for London

Financial Statements Audit Plan 2012-13 Update

November 2012

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The contacts at KPMG in connection with this report are:

Wayne Southwood
Partner

Tel: +44 (0)20 7311 3232
wayne.southwood@kpmg.co.uk

Robert Brent
Partner

Tel: +44 (0)20 7311 4736
robert.brent@kpmg.co.uk

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This report is addressed to Transport for London and has been prepared for the sole use of the Transport for London Group (TfL) and the TTL Group (TTL). 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 Wayne Southwood, who is the engagement Partner to TfL, telephone 0207 311 3232, email wayne.southwood@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

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Summary

This document supplements our audit plan presented to the audit committee on 4 October 2012.

- Subsequent to the presentation of our audit plan for the year ended 31 March 2013, we were informed by the audit commission of our fees for the TfL Corporation and Group. In addition we have agreed with management our fees for the TTL Group of entities.
- We present the fees for TfL Corporation and Group, and for TTL, for consideration and approval by the Audit Committee.
- Ernst & Young have been appointed as auditor to the Greater London Authority ('GLA') and under International Auditing Standards are required to set the materiality for the TfL Group, being a major component that is consolidated into the GLA Group accounts.
- We presented our materiality to the Audit Committee in our strategy paper, and our proposal was to set materiality based on the gross assets of the Group (£30bn) and at a level of £200m. Based on this we design our procedures to detect errors at a lower level of precision of £150m. All of the subsidiaries report to lower levels of materiality.
- We have been in dialogue with the E&Y partner for the GLA audit who has confirmed that they wish to base materiality on the overall GLA expenditures rather than the asset base. As a result it is likely that the materiality set for TfL will be lower than the level we have proposed. Depending on the quantum of this decrease there may be an impact on the level of testing that we need to undertake, as a lower materiality level can trigger the need for increased sample sizes and bring into scope additional financial statement captions.
- We are working closely with E&Y to finalise the materiality discussions and anticipate a final decision before we commence our interim procedures. We shall provide an update to the Audit Committee at our next meeting.

Our Audit fees – TfL and TTL

We set out here our proposed audit fees for the TTL group of entities, and TfL Corporation and Group

We continue to target efficiencies to offset the inflationary increases and scope changes, and cumulatively to date we have achieved efficiencies totalling £0.4m over the past three year period

- Set out below is our proposed fee for 2012-2013 covering the Corporation and the TTL group

£'000				
Audit fee	**2009 – 2010**	**20110-2011**	**2011-2012**	**2012-2013**
Total for TfL Corporation and Group	384	360	350	208
Total for TTL Group	1,374	1,194	1,235	1,256
Total for TfL	**1,758**	**1,544**	**1,585**	**1,464**

- The largest element is TTL and the movement year on year is set out as follows:

£'000				
TTL – fee	**2010/11**	**2011/12**	**2012/13**	**Comments**
Opening audit fee	**1,374**	**1,194**	**1,235**	
Inflation	**42**	**36**	**37**	**Wage inflation (capped at 3%)**
IFRS impact	**52**	**-**	**-**	**Impact from ongoing increased disclosures / new standards applicable**
Scope change	**-**	**59**	**12**	**Increased activity at Crossrail necessitating additional audit procedures**
Specialists	**-**	**-**	**12**	**Increased involvement from Treasury specialists**
Targeted efficiencies	**(274)**	**(54)**	**(40)**	**Cumulative efficiencies of £0.4m; targeted to largely offset inflation and scope increases**
Closing audit fee	**1,194**	**1,235**	**1,256**	

- The annual spend within Crossrail has increased from £0.9bn to £1.5bn and will necessitate increased audit effort to gain comfort over the key financial statement captions involved (eg project costs and accruals). The scope change in the prior year also included the Care & Ware acquisition.
- There are ongoing treasury activities within the Group, and this is a complex area of accounting given the numerous accounting and disclosure rules that apply. We incorporate treasury specialists within our core team and the additional fee allowance this year reflects the additional time that we envisage in this area of our audit.
- We set out in 2010/2011 to target efficiencies that over a 5 year period would equate to £0.5m. These provide an element of offset against the wage inflation and scope changes. The cumulative savings after three years amount to £0.4m. As a result the proposed closing fee for 2012/2013 remains lower than the initial opening fee from 2010/2011.
- The TfL Corporation fee is set by the Audit Commission and has been reduced by 40% this year although the level of effort required remains the same as the prior year. We are committed to maintaining the quality of our audit delivery and while this reduction impacts our audit profitability we shall maintain the level of audit testing from the prior year.
- We shall seek approval from the Audit Commission for an adjustment to the TfL fee to take into account the change in scope due to a lower materiality that is likely to flow down from the GLA (this is currently being finalised) and due to the change in scope in the Whole of Government Accounts. The current fee for the TfL Corporation is inclusive of the Value for Money and WGA work.

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