Audit and Assurance Committee

Date: **4 October 2012**

Item 6: **Annual Audit Letter 2011/12**

This paper will be considered in public

1 Summary

1.1 To inform the Committee of the draft Annual Audit Letter as prepared by KPMG.

2 Recommendation

2.1 **The Committee is recommended to note the report.**

3 Background

3.1 The Annual Audit Letter prepared by KPMG summarises their conclusions on the Annual Statement of Accounts and Value for Money. KPMG's letter is attached for the Committee's review.

List of appendices to this report:

Appendix 1 – KPMG's Annual Audit Letter

List of Background Papers:

None

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Transport for London

Annual Audit Letter 2011/12

September 2012

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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 KPMGs work, in the first instance you should contact Wayne Southwood 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
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Executive Summary

Purpose

This Annual Audit Letter ('the letter') summarises the key issues arising from our 2011/12 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 Annual Governance Statement. 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 13 July 2012; and
- We identified no unadjusted audit differences as part of our 2011/12 Financial Statement Audit.

Fees

Our audit fee for the Corporation and Group (not including the underlying subsidiaries) audit for 2011/12 was **£385,702.50** excluding VAT (2009/10:£360,080). This fee does not include the underlying subsidiary entities.

Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

Use of resources

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements. Our responsibility is to assess these arrangements and we give a conclusion on whether or not arrangements are satisfactory.

For 2011/12, auditors are required to give their statutory VFM conclusion based on two reporting criteria specified by the Audit Commission which consider whether TfL has proper arrangements for:

- **Securing financial resilience**: assessing if TfL 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; and

- **Challenging how it secures economy, efficiency and effectiveness:** assessing how TfL is prioritising its resources within tighter budgets, for example, by achieving cost reductions and by improving efficiency and productivity.

A summary of our key findings is set out below:

Financial Governance -. The Board has a well established track record of constructive and timely challenge of financial results, plans and forecasts, with the Finance and Policy Committee primarily discharging this responsibility. Management and officers are able to articulate the financial benefits which have been delivered, and are expected to be delivered, through Project Horizon. We noted that management delivered this organisational change programme in line with the expected timetable.

Financial Planning - The objectives and priorities of TfL have been well established since the new Mayor came in to office in 2008. The Mayoral election of 2012 saw disruptions to the usual planning cycle at TfL. Officers demonstrated their ability to plan for differing scenarios and to effectively adapt planning techniques to take into account the new priorities. TfL is able to forecast the potential impact of wider economic factors on fare income, through performing sensitivity analysis on different scenarios of economic growth for London and applying historical elasticities.

Financial Control - TfL, at an aggregated group level, has a good record of operating within its financial budgets and our audit work on the financial statements has consistently concluded that, overall, there is a sound system of financial control. We noted that management were able to identify and track savings as part of the Project Horizon change programme. We have raised some suggestions to management regarding improvements to the control environment across the group as part of our year end audit.

Prioritising Resources - TfL have responded to financial pressures and changes in organisational priorities in a robust manner. Financial plans were adapted in the wake of SR 2010, to the effect that not all schemes and initiatives previously planned will be able to be taken forward. In 2011-12 management were able to return to the 'standard' planning processes. TfL is also exploring different ways of delivering elements of the Crossrail project, and management are planning a review of the long term future of Tube Lines in the autumn 2012.

Improving efficiency and productivity - Each part of the organisation has its own scorecard against which their performance is assessed. The target set for the constituent KPIs that make up the scorecards is at least equal to (and in most cases higher than) the forecast outturn for the prior year. These scorecards are adapted to reflect strategic priorities (for example, successful delivery of the Olympics workstream and targets to improve commercial revenue streams). Senior Management remuneration is linked to the achievement of these scorecard measures.

Value for Money Conclusion

We issued an unqualified value for money conclusion for 2011/12.

This means that we are satisfied that TfL put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Financial statements

Audit opinion

We issued an unqualified opinion on the TfL Financial Statements on 13 July 2012.

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 and Assurance Committee on 15 June 2012.

Accounts production and timetable

The timetable for the audit continues to be challenging (particularly as the Group grew in size again in 2011/12 due to the acquisition of CARE and WARE), but in general management continue to deliver to the pre-agreed timetables and responded promptly to audit queries.

Audit Adjustments

We identified no unadjusted audit differences. We identified £3.1m (net) adjustments to the Income and Expenditure statement and a number of presentational changes to the Financial Statements all of which were processed by management. These were set out in full in our ISA260 document to the Audit and Assurance Committee.

Whole of Government Accounts (WGA)

The deadline for submission of the WGA return to the Department for Communities and Local Government is 5 October 2012. We combined some of our WGA testing with our audit of the accounts and the remaining work is due to be complete by 5 October.

Appendix 1: Reports issued

We set out below the reports issued during the year.

Report	Date issued
2011/12 Audit Plan Fee Letter	April 2011
2011/12 Financial Statements Audit Plan	September 2011
ISA 260 report to those charged with governance	June 2012
Annual Audit Letter	October 2012

Appendix 2: Audit Fees

We set out below our fees to the Corporation and Group for the year ended 31 March 2012.

	2011/12 (Actual)	2011/12 (Plan)	2010/11 (Actual)
Financial Statements and Statement on Internal Control	£301,000	£301,000	£311,010
Use of Resources	£43,570	£43,570	£43,570
Whole of Government Accounts	£5,500	£5,500	£5,500
Additional audit work	£35,632.5*	-	-
Total Statutory Audit Fee	**385,702.50**	**350,070**	**360,080**
IFRS restatement	**-**	**-**	£280,000
Non statutory audit work	79,365**	-	£51,924
Non audit work	14,192***	-	£70,112

*Comprises £3,080 in relation to an electors enquiry and £32,552.50 in respect of additional work carried out in relation to congestion charging to inform our audit opinion.
**Comprises £69,405 in relation to MTN programme updates and £9,960 in relation to accounting advice in relation to debt restructuring
***Comprises £5,300 in relation to providing a VAT helpline, £5,582 in relation to advising on multi stream outsourcing best practice and £3,310 respect of a payroll solutions software license.