Audit and Assurance Committee

Date: **4 October 2012**

Item 7: **External Audit Plan 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 KPMG's plan for the audit of the financial statements of Transport for London, Transport Trading Limited and its subsidiaries for the year ending 31 March 2013.

2 Recommendation

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

3 Background

3.1 The Plan has been developed by the Appointed Auditor, KPMG, and sets out the work that they propose to undertake in the 2012/13 financial year. The Plan sets out the audit strategy and approach for the audit of the financial statements and also encompasses work relating to Value for Money.

List of appendices to this report:

Appendix 1 – Financial Statements Audit Plan 2012-13

List of Background Papers:

None

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

cutting through complexity™

Transport for London

Financial Statements Audit Plan 2012-13

September 2012

Contents

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

Disclaimer

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 Transport Trading Limited 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

Summary

This document describes how we shall deliver our audit work for the relevant entities for the year ending 31 March 2013.

- The TfL Group and Corporation audits are part of the Audit Commission's framework contract. Our statutory responsibilities and powers are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Audit Commission's Code of Audit Practice (the Code).
- Our work for 2012-13 shall cover three key areas:
  - Financial statements (including the Annual Governance Statement): providing an opinion on your accounts;
  - Value for money (VFM); and
  - Whole of Government accounts
- We are also the auditors of the TTL Group companies, although this appointment falls outside of the remit of the Audit Commission. For these entities we shall provide a statutory opinion on the Financial Statements in accordance with the Companies Act, 2006.
- Set out below is a high level outline of our proposed work and outputs. Further detail is provided in later sections.

Proposed work and output	
Financial statements and Annual Governance Statement	■ Our work will encompass: – A review of the controls over the completion of the accounts. – A detailed audit of the financial statements and associated disclosure notes. – We will also review your Annual Governance Statement (AGS) to confirm that it is in line with our understanding of the business – For the TfL and TTL Group Accounts we shall review your consolidation process and test journals relating to consolidation adjustments. ■ The findings of this work supports the audit opinion that we issue on your financial statements.
Value for Money	■ Our work in this area shall focus on the same two areas as last year: – Whether there are proper arrangements in place for securing financial resilience; and – Whether there are proper arrangements for ensuring TfL secures economy, efficiency and effectiveness.

- The audit planning process and risk assessment is an on-going process and the assessment in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement in four key stages.

Our work results in our audit opinion on your financial statements.

- We are required to satisfy ourselves that the accounts of the TfL and TTL Groups comply with statutory requirements (including the Code for TfL) and that proper practices have been observed in compiling them. We are required to provide audit opinions on the consolidated financial statements of TfL and TTL as well as on 20 subsidiary companies.
- We are also required to satisfy ourselves that your Annual Governance Statement (AGS) is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.
- In addition to TfL's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts consolidation pack (WGA).

			Sep	Oct	Nov -Jan	Feb	Mar	Apr	May	Jun	Jul
1	Planning	Determine risk assessment procedures and identify risks.	●	●							
		Determine audit strategy and planned audit approach.	●	●							
		Review internal audit findings and scope reliance.	●								
		Meet GLA auditors to determine group reporting requirements	●								
2	Control Evaluation	Understand accounting and reporting activities.		●							
		Evaluate design and implementation of selected controls.			●						
		Test operating effectiveness of selected controls.			●			●			
		Assess overall risk of material misstatement.		●	●			●			
3	Substantive procedures	Plan substantive procedures.					●				
		Perform substantive procedures.						●	●	●	
		Consider if audit evidence is sufficient and appropriate.						●	●	●	
		Perform work on consolidation.								●	
4	Finalisation	Perform completion procedures.									●
		Group reporting to GLA auditors									●
		Perform overall evaluation.									●
		Form an audit opinion.									●
		Audit and Assurance Committee reporting.		●	●					●	

Audit overview (cont.)

We work with your finance team and internal audit team to enhance the efficiency of the financial statements audit.

Our Audit Process

- We have summarised the four key stages of our financial statements audit process on the previous page.
- As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. We will issue a 'prepared by client' list for each material entity as well as for the Group. This will include a detailed schedule of information requests, tailored to you, to support the financial statements.

Fraud awareness and prevention

- Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. TfL has a dedicated anti-fraud team and we meet them twice annually to receive an update on activities.
- TfL also participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review TfL's progress and actions in following up the matches identified. We use KPMG forensic specialists to perform data analytics on journals posted across the group. This identifies trends and highlights any unusual transactions for further investigation.
- The UK Bribery Act 2010 came into force on 1 July 2012. This was audited by TfL's Internal Audit team in 2012. We will use the findings of this review to inform our understanding of the Group's arrangement.
- The responsibilities of management and the arrangements with regard to fraud prevention and detection are set out in more detail in the appendices.

Whole of Government Accounts (WGA)

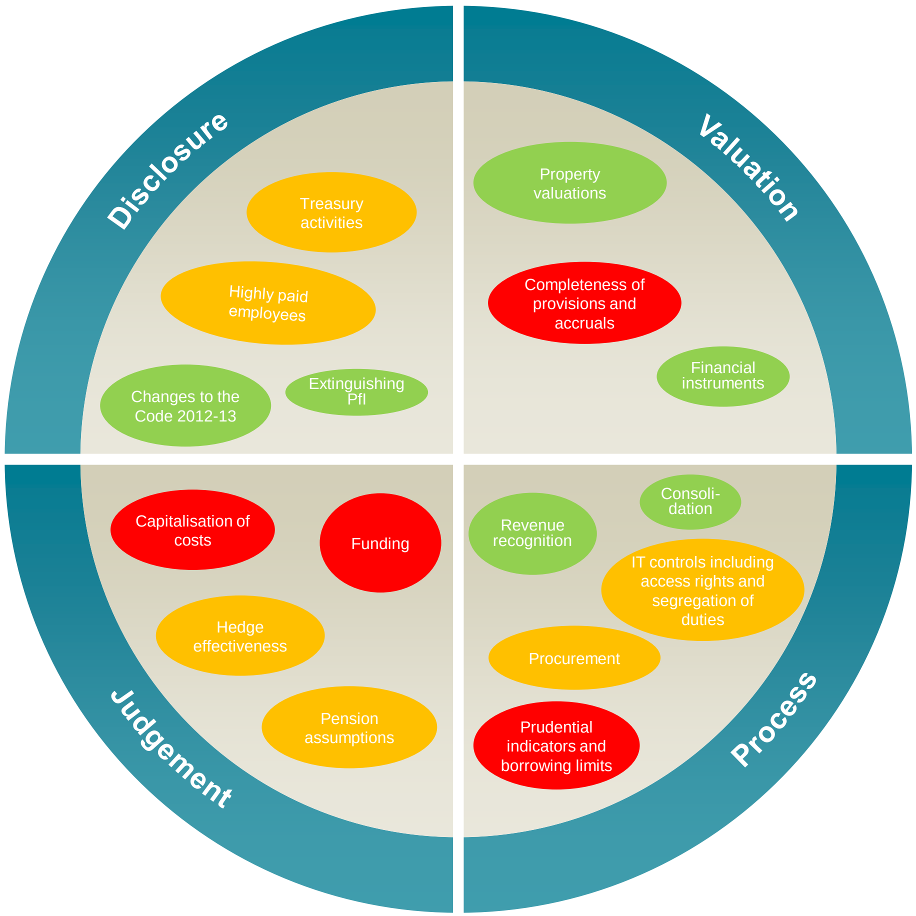
KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office. We will carry out part of this work at the same time as our final accounts work and will complete this work ahead of the deadline of 1 October 2013.

Liaising with Internal Audit

- We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at TfL. We receive the annual Internal Audit plan and review this to ascertain where specific reviews can assist us in our controls work. In addition we also use these reports to inform our understanding of the entity and its wider control environment. Specifically, the Internal Audit function's work on anti-fraud informs our own fraud assessments.
- We have met with Internal Audit as part of our planning work for the 2012-13 audit and have identified a number of reviews upon which we hope to rely, either in informing our risk assessment, directly to assist our controls work or to inform our VfM opinion. The International Auditing Standards stipulate the factors we must consider in determining whether we can rely on the work of Internal Audit. We have outlined in our protocol with Internal Audit the implications of these requirements. We have outlined below the items we would seek to rely on if all of the requirements outlined in the auditing standards have been met. It is also noted that a degree of top up work by KPMG will be required in all cases, in order to meet the requirements set out in the standards. The reviews highlighted are as follows:
  - Balance sheet items;
  - Treasury management;
  - Efficiencies delivery;
  - Financial controls;
  - Financial controls in projects;
  - IM Governance;
  - IM Resilience, Access and Security controls;
  - Resilience of critical IM applications;
  - Business Continuity;
  - Estate Management;
  - Leavers process;
  - Risk Management;
  - Fraud risks in projects and contracts;
  - Obtaining value for money in contracts; and,
  - Real Time Procurement Audits.

Key financial statement audit risks

Through discussions with officers and our existing TfL and sector knowledge we have identified a number of key financial statement risks.



Note:
- High.
- Medium.
- Low.

The high risk issues are discussed overleaf.

The size of each bubble is not representative of the scale of the risk.

Key financial statement audit risks

For each key risk we have outlined the impact on our audit plan.

We shall provide an update to the Audit and Assurance Committee on these risk issues as part of our Report to those charged with Governance in June 2013.

Key audit risks	Impact on audit plan
Funding **Audit areas affected** ■ Grants ■ Funding ■ Financial standing	■ TfL currently receives the majority of its funding through the Transport Grant from the DfT. The specific amounts are agreed as part of each spending review. The amounts set out in the funding agreement are then used as a basis for TfL's financial plans, including the Investment Programme. ■ The Crossrail project is funded through a variety of mechanisms, the significant elements of which are passed through the DfT and through TfL. Of the £14.8 billion funding required over the life of the project some £7.1 billion will be provided by TfL through a variety of sources. ■ There are a number of conditions attached to both the government funding (mainly associated to the delivery of the TfL Business Plan and Investment Programme) and the Crossrail project funding which must be met to ensure this funding is continued. ■ Throughout our audit, and up until the date of signing, we will review the conditions attached to the funding and assess TfL's actual and forecast compliance with them. ■ The funding arrangements for 2013-14 are currently under review. Management inform us that there may be a change in the funding model whereby the GLA would fund TfL's operations through Non-domestic rates collection and this would be supplemented by a reduced Transport Grant from the DfT. The full impact is not likely to be determined until later in 2012-13. ■ We will review the impact of these changes on TfL's financial planning processes, and the associated impact on cash flow forecasting.
Prudential indicators and borrowing limits **Audit areas affected** ■ Funding ■ Borrowing	■ Under the Local Government Act 2003 the Mayor must determine and keep under review how much money TfL and the other functional bodies can afford to borrow. TfL may not borrow money if doing so would result in a breach of this limit. ■ TfL has voluntarily developed a set of specific local indicators, referred to as voluntary or discretionary indicators, calculated on the basis of the Group accounts. ■ We will review TfL's performance against these prudential indicators as part of our audit. As part of our assessment of going concern we will review the forecast position for the 12 month period from the date of signing the accounts, in order to assure ourselves that the indicators will not be breached.

Key financial statement audit risks

For each key risk we have outlined the impact on our audit plan.

We shall provide an update to the Audit and Assurance Committee on these risk issues as part of our Report to those charged with Governance in June 2013.

Key audit risks	Impact on audit plan
Completeness of provisions and accruals **Audit areas affected** ■ Provisions ■ Accruals ■ Contingent liabilities	■ TfL is subject to significant claims from contractors in respect of projects and contracts, as well as disputes in the ordinary course of business (for example, on compulsory purchases). The assessment of the amount to be provided in respect of such claims is a highly subjective matter. ■ Where we are aware of claims we will meet with management to discuss and fully understand the nature of the claims and how any provision has been calculated, including reviewing the assumptions underpinning this judgement as well as the review of any supporting documentation. ■ We will also meet with the Director of Legal to determine whether any other claims have been received and review the treatment of these claims.
Capitalisation of costs **Audit areas affected** ■ Fixed assets ■ Depreciation and impairment	■ On the majority of projects undertaken within TfL and TTL a judgement needs to be made concerning the split of costs between capital and operating expenditure. In many cases, projects will involve a mix of repairs and maintenance (operating expenditure) and replacement (capital expenditure). Where costs are capitalised the economic useful lives of the asset needs to be determined which involves further judgment. ■ In addition, given the current economic environment there is an increased risk of projects being terminated or suspended, which increases the risk of potential write-offs of assets. The treatment of costs associated with such projects will need to be carefully considered. ■ We will review the split of capital and revenue for new additions and understand how useful lives are determined and monitored. We will also discuss significant aborted projects with management and determine how any associated costs have been accounted for. This will include a review of any project re-profiling. We will test year end accruals for completeness and accuracy.

Key audit team and specialists

Your team will remain largely consistent with the prior year. Contact details of the core audit team are shown on page 1.

- **TfL** – *Wayne Southwood*
  - **TfL (vfm)** – *Ross Tudor*
    - *Rebecca Pett*
    - *Sarah Green*
  - **TTL Group** – *Robert Brent*
    - *Vishal Divadkar*

David Prestwich	**Tax**
Seri Malak	**Tax**
Umar Mahmood	**Treasury**
Greg McIntosh	**Local Government**
Keith Bannister	**IT**
Ben Foulser	**IT**
Naz Peralta	**Pensions**
Ed Brogden	**Pensions**
Will Gray	**Valuations**

Independence confirmation

Our independence and objectivity responsibilities under the Code are summarised in Appendix 3.

We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

- Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit Engagement Partner and audit staff. In this regard we refer you to our sixmonthly reports on all services provided to the TfL Group. The standards also place requirements on auditors in relation to integrity, objectivity and independence.
- The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit and Assurance Committee.
  - KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

- We confirm that as of 4 October 2012 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor, and the objectivity of the audit team, is not impaired.

Audit fees

We set out here our proposed audit fees for the financial statements audits of the Group entities, the Value for Money assessment and Whole of Government Accounts opinion.

Please note that the Audit Commission issues guidance in relation to setting audit fees. This guidance was not issued in time for inclusion within this document. As such the schedule of proposed fees will be brought to the next meeting. However, we note that the fees in relation to TfL Corporation and the Group audit will not exceed the fee for in relation to 2011/12 (£350,070).

Audit fees (cont.)

Our audit fee is indicative and based on you meeting our expectations of your support as outlined in Appendix 1.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee assumptions

- The audit fee is indicative and is based on you meeting our agreed expectations as outlined in Appendix 1. In setting the fee, we have assumed:
  - The overall level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2011-12;
  - You will inform us of any significant developments impacting on our audit;
  - Internal audit continues to meet the appropriate professional standards;
  - Internal audit undertakes appropriate work on all areas as agreed with KPMG;
  - The fee does not include a provision for any additional work we may incur reviewing your accounting conclusions on complex and unusual matters – the fees for these services will be agreed with you in advance of commencing such incremental work;
  - You will identify and implement within your 2012-13 financial statements any changes required under the CIPFA IFRS-based Code of Practice on Local Authority Accounting;
  - Your financial statements will be made available for audit in line with the timetable we agreed with you;
  - good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
  - Requested information will be provided within agreed timescales;
  - Prompt responses will be provided to draft reports; and
  - Additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.
- Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

- Changes to this plan and the audit fee may be necessary if:
  - New significant audit risks emerge;
  - Additional work is required of us by the Audit Commission or other regulators; and
  - Additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.
- If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Group Financial Accounting and Chief Finance Officer.

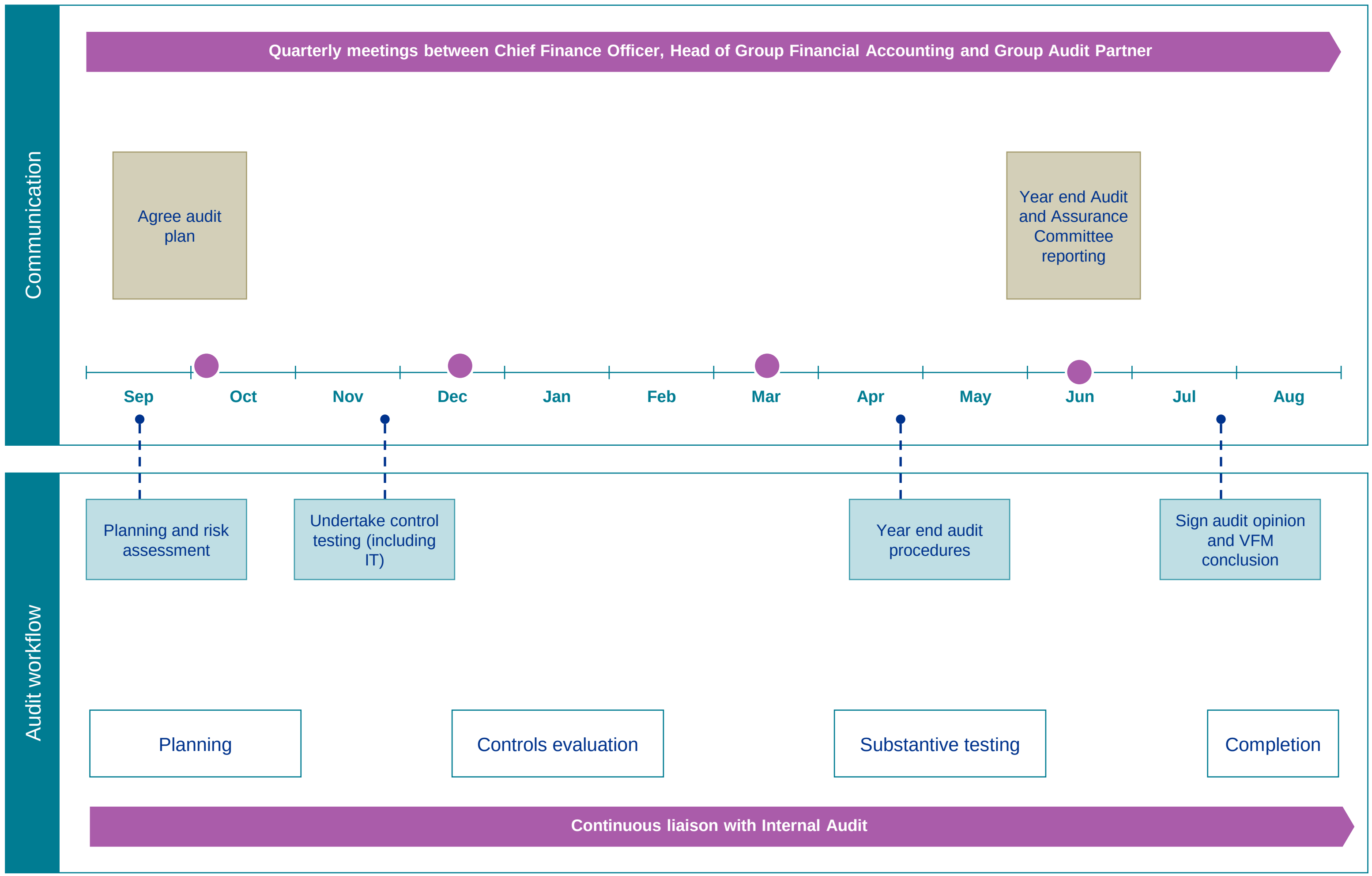
Audit timeline and deliverables

We will discuss and agree each report with management prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. ■ Confirm plan with Audit and Assurance Committee.	September 2012
Final Audit		
Report to those charged with governance (ISA 260)	■ Auditor's report on financial statements. ■ Auditor's report on TfL's value for money. ■ Detail the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit.	June 2013
Opinion on financial statements	■ Financial Statements opinion.	July 2013
Value for Money		
Opinion on economy, efficiency and effectiveness	■ Value for Money conclusion.	July 2013
Annual Audit Letter		
AAL	■ High level summary of work carried out.	September 2013

Audit timeline and deliverables (cont.)

We will be in continuous dialogue with you throughout the audit.



Key: ● Audit and Assurance Committee meetings.

Appendices

Appendix 1

Meeting your expectations

We have summarised how we plan to meet your expectations.

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that telephone calls, letters and emails are answered within a reasonable timeframe.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Officers.
- Wayne Southwood and Robert Brent will attend all Audit and Assurance Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

- We will ensure that the Chief Finance Officer, Head of Group Financial Accounting and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Group to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the responsible officer.

Cooperating with TfL

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect TfL’s accounts.
- We will respond promptly to requests for comment on aspects of the TfL’s operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting TfL.
- Review and agree the draft plan.

Interim Audit

- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the account packs are available on the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit and Assurance Committee.
- Ensure that all action plans are agreed and followed up in due course.

Other work

- Agree a key contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2

Balance of internal controls and substantive testing

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Emphasis of testing

What we do	Accounts/transactions suited to this testing	For example KPMG's approach to:
Extensive controls testing / Reduced substantive testing	■ Low value transactions ■ High volume ■ Homogenous transactions ■ Little judgement	■ Revenue and debtors ■ Purchases and payables ■ Payroll
Moderate controls testing / Moderate substantive testing	■ Low/medium value ■ High/medium volume ■ Some areas requiring judgement	■ Fixed Assets
Limited controls testing / Extensive substantive testing	■ High value ■ Low volume or ■ Unusual non-recurring ■ Accounting estimates ■ Significant judgements	■ Valuation of provisions and fixed assets ■ Investment properties ■ Financial Instruments ■ Pensions

Note: Assuming controls are found to operate as designed.

Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

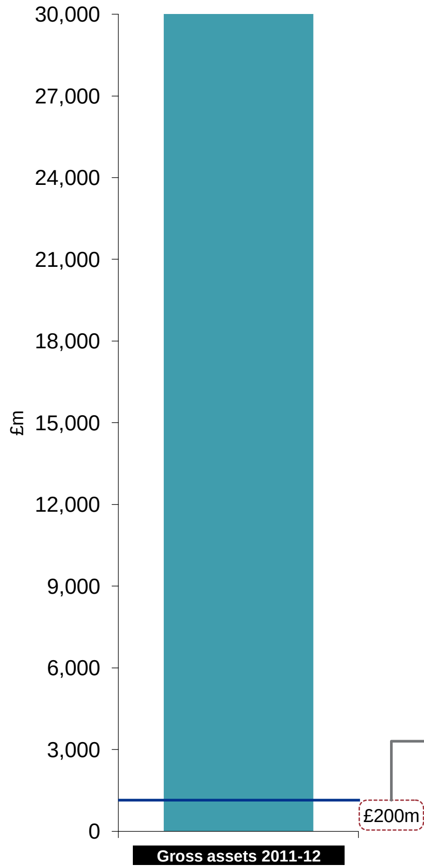
Independence and objectivity

- Auditors are required by the Code to:
  - Carry out their work with independence and objectivity;
  - Exercise their professional judgement and act independently of both the Commission and the audited body;
  - Maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
  - Resist any improper attempt to influence their judgement in the conduct of the audit.
- In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If TfL invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.
- The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
  - Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner;
  - Audit staff are expected not to accept appointments as lay school inspectors;
  - Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
  - Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence;
  - Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
  - Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body;
  - Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body; and
  - The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Materiality (TfL Group)

Our audit work is planned to detect errors that are material to the accounts as a whole.

Gross assets



Note: Materiality may be updated on receipt on the draft financial statements and will be less for individual entities.

Source: 2011-12 financial statements.

Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

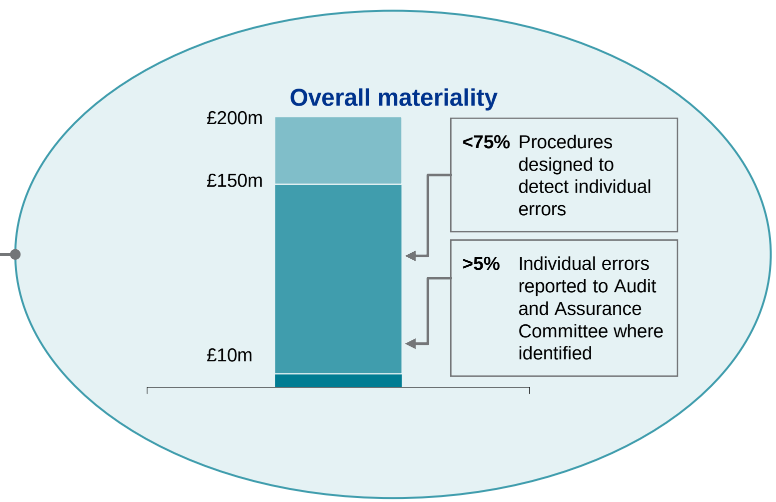
Materiality for the Group has been set at £200 million for all balances which is 0.7% of gross assets. All of the subsidiaries report to lower levels of materiality.

We design our procedures to detect errors at a lower level of precision, i.e. £150 million; we have some flexibility to adjust this level downwards. Some of our procedures are designed to lower levels of materiality would we consider this appropriate.

Reporting to Audit and Assurance Committee

To comply with auditing standards, the following three types of audit differences will be presented to the Audit and Assurance Committee:

- summary of adjusted audit differences.
- summary of unadjusted audit differences.
- summary of disclosure differences (adjusted and unadjusted).



Fraud

This appendix summarises the changes to KPMG's audit management processes.

Consideration of fraud

- Auditing standards require that we consider the possibility of fraud (in the context of pervasive and specific risks) at all stages of the audit process;
- Our approach to fraud risks in 2012-13 will include: one-on-one discussions with senior management, those charged with Governance, internal audit and your Head of Fraud; and
- Consideration of TfL's process for confirming and reporting instances of fraud.

Respective responsibilities of management, those charged with governance and audit

- It is the responsibility of management to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the entity's business.
- It is the responsibility of those charged with governance to ensure, through oversight of management, the integrity of an entity's accounting and financial reporting systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with the law.
- An audit is designed to provide reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. The fact that an audit is carried out may act as a deterrent, but the auditor is not and cannot be held responsible for the prevention of fraud and error under the Auditing Standards.

The Bribery Act

- The Act came into force on the 1 July 2012. The legislation specifically creates a potential new criminal offence on the employer of failing to prevent bribes paid on their behalf. The only defence for an entity is that it 'had in place adequate procedures designed to prevent a person associated with it from undertaking such conduct'. The Ministry of Justice and the Serious Fraud Office have both issued guidance as to what entities need to have in place in order to meet this requirement
- The Act will potentially expose Board members and Senior Management to personal liability and criminal charges if an organisation is found to be in breach of certain key provisions within the Act.
- The Act provides for unlimited fines and prison sentences of up to ten years, or a combination of the two, if a person is convicted of bribery, and employers convicted of bribery are subject to an unlimited fine which must be paid from personal expense.

Audit Quality - Audit Quality Framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Audit Quality Framework	
Seven key drivers of audit quality	**Impact on our audit approach**
Tone at the top Tone at the top is the umbrella that covers all the drivers of audit quality and maximizes our outcomes through a focused and consistent voice.	■ The tone is set at the top through your Engagement Partners. They lead by example with a clearly articulated audit strategy; committing a significant proportion of time throughout the audit and directing and supporting the team.
Association with the right clients One of the keys to managing audit quality is to understand the nature of our clients' business and the issues they face and build a robust audit response to the identified risks.	■ We have set out within this plan the key financial statement risks we have identified as part of our planning. For many of these, such as IT and treasury, we will supplement our core audit team with specialists to ensure we provide a robust audit response.
Clear standards and robust audit tools Professional practice, risk management and quality control are the responsibilities of every KPMG partner and staff member. We expect our people to adhere to the clear standards we set and we provide a range of audit tools to support them in meeting these expectations.	■ We dedicate significant resources to keeping our standards and tools complete and up to date. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly effective audit which is compliant with all professional standards.
Recruitment, development and assignment of appropriately qualified personnel One of the key drivers of audit quality is ensuring the assignment of partners and staff members appropriate to TfL's risks and industry.	■ As well as your core audit team we use a variety of specialists all with significant knowledge of TfL to ensure that we are best placed to respond to your risks. Further details are set out on page 9.
Commitment to technical excellence and quality service delivery We ensure that our people bring to you the most up to the minute and accurate technical solutions and together with our specialists are capable of solving the most complex audit issues and delivering valued insights.	■ We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes.
Performance of effective and efficient audits We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximize the performance of the engagement team during the conduct of every audit.	■ Our report to those charged with governance summarises our audit findings and sets out our response to your key risks.
Commitment to continuous improvement We focus on ensuring our work continues to meet the needs of participants in the capital markets. To achieve this goal, we employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.	■ We use a number of internal inspection programmes, including reviews of firm wide procedures and a sample of audit engagements. ■ We operate a formal programme to actively solicit feedback from clients on the quality of specific services that we have provided. ■ We also use the feedback received from TfL as part of your review of effectiveness of external audit to improve our audit year on year.

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