Audit and Assurance Committee

Date: **18 June 2014**

Item 5: **KPMG Report to Those Charged with Governance**

This paper will be considered in public

1 Summary

1.1 To report to the Audit and Assurance Committee the key issues identified by KPMG during the course of their audit of the Statement of Accounts for the Transport for London Group for the year ended 31 March 2014.

2 Recommendation

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

3 Background

3.1 KPMG have, as required by International Auditing Standards, prepared a report for the benefit of those charged with governance. The report outlines the respective responsibilities of the auditor and TfL, and provides an overview of the status of the audit and accounting policy changes. The report also comments on judgemental areas within the accounts. KPMG's report is attached for the Committee's review.

List of appendices to this report:

Appendix 1 – KPMG's Report to Those Charged with Governance

List of Background Papers:

None

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cutting through complexity

Transport for London

ISA260 Report to Those Charged with Governance

2013/14

For presentation at the Audit and Assurance Committee

10 June 2014

Notice: About this report

This material is for the information of TfL. Our procedures are designed to support the provision of our audit opinion and should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material. This report does not add or extend our duties and responsibilities as auditors reporting to the Audit and Assurance Committee.

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Robert Brent, Lead Partner for the TfL Group audit in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Contents

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Introduction

Background

This report to those charged with governance is made to Transport for London's (TfL's) Audit and Assurance Committee in order to communicate matters of interest as required by International Standards of Auditing (ISAs) (UK and Ireland), and other matters coming to our attention during our audit work that we consider relevant, and for no other purpose.

As auditors we have a responsibility for forming and expressing an opinion on the Financial Statements that have been prepared by management with the oversight of those charged with governance. The audit of the Financial Statements does not relieve management or those charged with governance of their responsibilities.

Financial Statements	Our work encompassed: ■ Audit testing over the key underlying transactions, including revenue streams, expenses, borrowings and capital expenditure. As part of this we have carried out data analytics procedures over journals, payroll and accounts payable; ■ Use of IT specialists to audit key controls across the systems operated, including general IT controls and access rights; ■ Consideration of the key judgment areas including claims and provisions, property valuations, and pension liabilities; ■ Work in specific areas such as treasury activities and grant accounting; ■ Audit testing of the controls over the completion of the Financial Statements; ■ An audit of the Financial Statements and associated disclosure notes; ■ Consideration of your Annual Governance Statement (AGS) to confirm that it is in line with our understanding of the business and meets CIPFA requirements; and ■ For the TfL and TTL Group Financial Statements, audit testing over your consolidation process. The findings of this work support the audit opinion that we issue on your Financial Statements.
Value for Money	Our work in this area focussed 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 challenging how TfL secures economy, efficiency and effectiveness. The findings of this work inform our value for money conclusion.

Structure of report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our findings on the audit of Financial Statements.
- Section 4 outlines work that has been performed on use of resources.

Headlines

The table below summarises the work we have completed throughout the year and the results of the audit of your Financial Statements.

Financial Statements	Our audit field work is largely complete although at the time of releasing this report we have not completed our final review of the Financial Statements, which we plan to do immediately prior to signing the accounts. We received the Annual Report on 9 June 2014 and are currently reviewing this to ensure that it is not inconsistent with the Financial Statements. Subject to satisfactory completion of the remaining procedures, including receipt of a management representation letter, we expect to issue an unqualified opinion on TfL's Financial Statements.
Audit differences	As at 10 June 2014 we not have identified any audit adjustments above our posting threshold.
Recommendations	We have followed up the performance improvement observations raised in last year's document. We are pleased to report that good progress has been made in implementing these and we identified no new control recommendations this current year. The level of oversight and sponsorship from senior finance management is strong and has led to increased focus across the businesses in clearing outstanding control points.
Whole of Government ('WGA') Financial Statements	As in the previous year, we combined some of our testing on the production of the WGA with our regular audit work. We will complete the remainder of our work on the WGA in August 2014 and anticipate meeting the deadline of 3 October 2014.
Fraud	We have a responsibility to consider material fraud and we addressed this in our assessment of TfL's controls framework. We have also reviewed, in the context of materiality, the arrangements established for the prevention and detection of fraud and corruption. We have not identified any matters related to these areas to bring to your attention, other than those which have already been communicated to you by Internal Audit as part of the six monthly updates on fraud.
Use of resources and certification	Our work on this area is complete and we anticipate issuing an unqualified opinion. We are required to certify that we have completed the audit of the Financial Statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. There are no issues that would cause us to delay the issue of our certificate of completion of the audit.

Below are outlined the activities we have completed throughout 2013/14. We have completed these activities in line with our Audit Plan presented to the Audit and Assurance Committee in December 2013. We have highlighted the areas we are yet to complete. There is nothing to indicate this timetable will not be met.

			October	November	December	January	February	March	April	May	June	July
1	**Planning**	Determine risk assessment procedures and identify risks.	●	●								
		Determine audit strategy.	●	●								
		Determine planned audit approach.		●								
		Review internal audit findings and scope reliance.		●								
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.										●
		Perform overall evaluation.										●
		Form an audit opinion.										●
		Audit and Assurance Committee reporting.			●				●		●	

These final activities are due to take place after the Audit and Assurance Committee

Please note that WGA work is due to take place in August 2014.

We have already reported the key findings from stage one in our previous communications with you. In the remainder of this section, we report our findings from stages two to four and discuss the representations required to complete stage four.

Financial statements (cont.)

Financial Statements production	We received complete draft Financial Statements packs on 24 April 2014 in accordance with the agreed timetable. We received the consolidation model and draft Group Financial Statements on 16 May in accordance with the agreed timetable. A number of notes including segmental reporting, highly paid employees and grant accounting were incomplete, although this did not affect our overall audit timetable. We received the Annual Report on 9 June 2014 and are currently reviewing this to ensure that it is not inconsistent with the Financial Statements, and will verbally update the Committee with our findings. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of CIPFA/LASAAC Code of Practice on Local Authority Accounting. TfL's finance staff were available throughout the audit visit to answer our queries as they arose. The quality of information provided throughout the audit was excellent and provided on a timely basis. We would like to thank the finance team for their co-operation throughout the visit.
Testing	Our findings relating to areas of significant audit risk are shown on slides 9-10 and our findings in relation to other audit areas on pages 11-13.
Representations and opinions	The Chief Finance Officer is required to provide us with representations on specific matters such as TfL's financial standing and confirmation that the financial statements have been prepared in accordance with with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. We have attached a copy of the proposed form of this letter at Appendix C.
Other matters	There were no changes to materiality made in the course of the audit work. We are required under ISA260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest. We have not identified any other matters of concern.

Next steps

Once we have received the required representations and carried out our subsequent events review we issue our audit opinion. For 2013/14 this provides confirmation that:

- The Financial Statements give a true and fair view of the financial position of the Group's and the Corporation's affairs as at 31 March 2014 and of the Group's and Corporation's expenditure and income for the financial year then ended; and
- The Financial Statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Independence and objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors. We have provided this declaration in our Independence Letter.

Financial statements (cont.)

Control findings from the prior year	In the prior year we made a number of observations regarding controls and agreed actions with management to improve the control environment across the following areas: • Property: lack of documentation to confirm existence and completeness; • Accounts payable: lack of document retention and adherence to policies; • IT: concerns over number of users and controls over access rights; • Cashflow: improvements required over monitoring and regular reconciliations; • HR: concerns over gaps in data and inconsistencies in the use of data; and • Fixed assets: lack of formal policies and procedures to capture correct classification of assets. This observation on fixed assets resulted in two audit adjustments being reported last year.
Update in 2014	We are pleased to report that, in each area highlighted above, either the necessary actions have been put in place by management and controls that we have tested are operating effectively or remediation of the weakness is in progress. On IM we have followed up our observations from last year which focused primarily on SAP User Access Management. Remediation actions were identified by management and the process of rationalising systems access rights has continued throughout the year. From our review there is evidence that progress has been made in the year. Once completed the next stage of maturity will be to formally record the compensating controls that have been implemented to address any residual risks. This represents a major improvement in the control environment, and no new control issues were identified from our current year audit. There is robust oversight from central management, led by the Chief Finance Officer, and this tone from the top has in our view helped to focus attention on clearing control observations in a timely manner.
Data analytics	We have used data analytic tools to test the journal entries, payroll and accounts payable across the Group. The benefit is that this allows us to test 100% of the population and to provide insightful reporting to management where any anomalies are identified. Our data analytics work has not identified any material errors or control weaknesses that impact our audit. We have shared our observations with management as there are some areas worthy of follow up with possible input from Internal Audit, but these do not impact our overall control assessment.
Internal audit	The control environment is reviewed on a day to day basis by TfL's in house Internal Audit team. As part of our audit procedures we maintain a close relationship with Internal Audit including review of all reports to identify potential control weaknesses which could impact our audit. The Lead Partner also attends quarterly meetings with TfL's Director of Internal Audit where any emerging issues are discussed.

Financial statements (cont.)

Audit process	The quality of information provided as part of the audit was high, and all information was received on a timely basis. The heightened focus on the audit requirements across all of the entities was evident resulting in a smooth and efficient audit close process.
Consolidation	The Group accounting team have implemented Cognos in 2013/14 to consolidate the modal packs to produce the consolidation model which subsequently drives the financial statements. Our IT team have produced a separate report with observations around this process. No points of significance were raised that impacted our audit, and actions have been agreed for all observations. From an audit perspective the automation of this process means all consolidation journals posted are instantly captured and this means the team are able to provide a much better audit trail than previously when the process was manual.

Financial statement audit risks: Significant risks

Below we outline the two significant risks that were identified as part of our planning. We have not identified any further risks during the course of our work. Our work and conclusions have been summarised below:

Significant risks	Why	Our audit approach	Findings
Capitalisation of costs	On the majority of projects undertaken within TfL and TTL a judgment 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.	■ For a sample of additions we reviewed the split of capital and revenue for new additions and understood how useful lives are determined and monitored; ■ We discussed significant aborted projects with management and determined how any associated costs have been accounted for. Specifically we considered the appropriateness of any write off and the value of any assets carried forward; ■ We tested a sample of year end capital and revenue accruals for completeness and accuracy; and ■ We also reviewed the timeliness of transfers from AUC into completed assets.	■ We identified one asset which had incorrectly remained in AUC despite being operational and seven assets which were transferred from AUC into operational assets more than 12 months after the completion certificate was issued. The magnitude of these errors was below our posting threshold and as such no audit difference has been raised. ■ We are satisfied that these errors do not indicate a weakness in control process, due to a new quarterly control implemented in June 2013. ■ Our testing over the split or capital and revenue costs and accruals and the treatments of costs in relation to aborted projects did not identify any audit differences.
Completeness of provisions and accruals	TfL is subject to 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 and could significantly impact the financial position of individual Company's and the Group.	■ We met 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 carrying out a review of any supporting documentation; ■ We met with the Head of Commercial Disputes Resolution to determine whether any other claims have been received and reviewed the treatment of these claims; and ■ We also reviewed the Board minutes and legal costs incurred to identify any potential claims which have not been provided for.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ There are robust processes in place to capture and assess all claims arising, with an appropriate level of prudence applied. ■ Appropriate documentation was available in all cases we reviewed to support management's judgment.

Financial statement audit risks: Significant risks that ISAs require us to raise in all cases

We highlight significant risks that ISAs require us to raise. Our work and conclusions have been summarised below:

Significant risks that ISAs require us to raise in all cases	Why	Our audit approach	Findings
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. However, most of TfL is a cash based business, therefore fraud risk from revenue recognition is not regarded as significant in this area.	■ Although we rebutted the presumed risk of fraud from revenue recognition, we remained alert to indications of fraud during the course of the audit; ■ We reviewed the revenue collection processes and cash receipting for key commercial revenue streams (fares and ticketing) as well as congestion charging; and ■ We performed walkthroughs of the collection process, including attendance at a station, and applied analytical techniques to assess the completeness of revenue.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ Our extensive test work over revenue was completed with no issues arising and no audit differences identified.
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.	■ Our audit methodology incorporated the risk of management override as a default significant risk; and ■ In line with our methodology, both Group and component auditors carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the component's normal course of business, or are otherwise unusual.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ Our control test work did not identify any areas of concern. ■ We also tested the entity wide and higher level controls and likewise no issues were identified. ■ Our data analytics over journal entries did not identify any unexplained or unsupported journals.

Other areas of audit focus

We highlight other areas of audit focus. Our work and conclusions have been summarised below:

Other areas of audit focus	Why	Our audit approach	Findings
Prudential Indicators	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: ■ Reviewed TfL's performance against these prudential indicators as part of our audit. As part of our assessment of going concern we reviewed 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; ■ Reviewed the methodology followed in calculating the indicators; ■ Re-performed the calculations in the papers to the Finance and Policy Committee; and ■ Agreed the calculations on prudential indicators through to the Business Plan.	■ Borrowing remains within the authorised prudential indicator limit which was approved by the Finance and Policy Committee in March 2014. ■ The methodology for calculating prudential indicators is consistent with the prior year which we reviewed in detail. ■ The prudential indicators are consistent with the latest version of the Business Plan. ■ Our work on borrowings displayed sufficient headroom between the current borrowing position and the Operational and Authorised borrowing limits.

Other areas of audit focus (cont.)

We highlight other areas of audit focus. Our work and conclusions have been summarised below:

Other areas of audit focus	Why	Our audit approach	Findings
Grants and Funding	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.	We: ■ Reviewed the conditions attached to the funding and assessed TfL's actual and forecast compliance with them; ■ Reviewed correspondences with agencies such as the GLA and the DfT to understand the arrangements for future years, and ensured TfL's financial plans had taken the changes in arrangements into account; ■ Held discussions with project/business accountants on all significant projects and corroborated that through discussions with senior management to identify any issues; ■ Agreed grants awarded to TfL to source documentation and reviewed the accounting treatment of these ; and ■ Reviewed the allocation of Grants and Prudential Borrowings across the Group as part of the consolidation process.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ The processes employed to monitor the grants and funding, including allocation across the numerous projects, is operating effectively.

Other areas of audit focus (cont.)

Other areas of audit focus	Why	Our audit approach	Findings
Property valuations and process controls over transactions	TfL has a significant property portfolio subject to valuation, part of which is done internally. The classification between investment properties and infrastructure under IFRS is judgemental. We have noted control deficiencies over completeness and documentation in prior years.	We: ■ used our valuation specialists to independently challenge management's assumptions; ■ held discussions with DTZ and Cushman and Wakefield along with the TfL Property team; ■ performed walkthroughs over property additions and disposals and subsequent recording in SAP; and ■ substantively tested documentation and audit trail over property additions and disposals including review of lease contracts and accounting thereof.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ We have followed up the control points raised in the prior year and are satisfied that these have been addressed. We have not identified any additional control points in this area.
Treasury	Outstanding derivative contracts need to be tested for hedge effectiveness in line with IFRS guidance. There are extensive disclosures in group and subsidiary accounts. A new hedge effectiveness testing system used (Quantum) is being used New hedging activity during the year included a gilt lock on a debt issuance and FX hedging of Euro Tram payments.	We: ■ tested the new hedge effectiveness testing system (Quantum); ■ reviewed the results of both prospective and retrospective hedge effectiveness test on outstanding contracts; ■ challenged management's assessment that hedge forecasted borrowings are still highly probable; ■ reviewed Treasury Board Policy and meeting minutes of the Finance and Policy Committee; and ■ reviewed key IAS 39 accounting polices and IFRS 7 disclosures within the Group Accounts.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ The Treasury department retains appropriate documentation to support the accounting applied.
Defined benefit pension	There is a significant pension deficit on Group balance sheet. The valuation subject to complex actuarial assumptions.	We: ■ involved our actuarial specialists to independently challenge management's assumptions and communicated with Punter Southall and Barnett Waddingham; ■ reviewed the appropriateness of the IAS 19 valuation methodology; and ■ agreed underlying data sent to actuaries and agreed asset values to underlying investment managers statements.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ We are satisfied that the assumptions applied are within an acceptable range.

Use of resources

Introduction

We have a responsibility to assess the extent to which proper arrangements have been put in place to secure economy, efficiency and effectiveness in TfL's Use of Resources (UoR). We give a conclusion on whether or not arrangements are satisfactory. To fulfil this responsibility we are required to review TfL's corporate performance management and financial management arrangements.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.

Criteria and scope of our work	Key findings from our work
1. Securing financial resilience The organisation 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 forseeable future.	We have concluded that Transport for London has systems and processes in place to manage financial risks. These include: ▪ Budgetary control, which remains effective with transparent reporting of the financial position to the Finance and Policy Committee. The operational and financial performance report links financial and non-financial metrics, including trend analysis, allowing users to make informed decisions. The Quarter 4 finance report shows the operating contribution to fund investment as £532 million, 19% more than budgeted. ▪ A comprehensive strategic risk register, received by the Audit and Assurance Committee, which enables the organisation to manage its financial risks. Maintaining a balanced plan within the constraints of resources is identified as a 'red' risk and a number of actions have been identified to manage this.
2. Securing economy, efficiency and effectiveness The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	We have concluded that Transport for London is effectively prioritising resources. Evidence includes: ▪ Transport for London is actively managing the reduction in Government grant that it is receiving. The 2014/15 includes significant savings targets. These will be delivered through initiatives such as improved track utilisation, bulk-purchasing, closer working with the London Boroughs on highways maintenance, and cashless buses. ▪ Despite the challenges presented by the funding reductions, the 2014/15 budget shows a further contribution to fund investment of £177 million. The 2014/15 budget shows the General Fund will be maintained at £158 million, with a further £3,437 million in earmarked reserves, two-thirds of which is Crossrail related.

The answers to these questions were completed based on our understanding from previous years, incorporating any changes during the year. Our work on the Financial Statements (for example, our review of going concern) provided additional evidence in forming our opinion on value for money.

VFM Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Appendices

ISA260 communication of audit differences

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit and Assurance Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of TfL for the year ended 31 March 2014.

Unadjusted audit differences

There were no unadjusted audit differences above our posting threshold.

Adjusted audit differences

There were no adjusted audit differences above our posting threshold.

Presentational Issues

We identified a number of minor presentational issues during our audit, all of which have been amended by the management. We are currently reviewing the Annual Report to ensure it is not inconsistent with the Financial Statements and will verbally update the Audit and Assurance Committee of our findings.

Other matters

There are no other matters which we need to bring to the attention of those charged with governance.

Scope of work as a result of the Audit Exemption

This year TfL has taken the audit exemption for all of the TTL subsidiary entities (with the exception of Crossrail Ltd, Victoria Coach Station Ltd, LTIG Ltd * and London Transport Museum Ltd) as set out in section 479A of the Companies Act 2006. * We note LTIG Ltd is a TfL subsidiary and has been included here for completeness.

- This requires a parent company (in this case TTL) to issue and file a guarantee with Companies House whereby the parent becomes the guarantor of each and every liability of the subsidiary existing at that year-end until it is satisfied in full. This covers liabilities recognised at the balance sheet date, and also 'all outstanding liabilities' so would also include future lease or pension liabilities and will include contingent and prospective liabilities, since these are a variety of liability.
- There is no exemption from preparing and filing the subsidiary accounts; the key change will be that there will be no audit opinion issued on the subsidiary accounts where the exemption is applied. In the prior year we carried out full audits to local materiality for each of the subsidiary entities and provided audit opinions on each set of financial statements.
- For those entities not requiring a statutory audit we applied group materiality and as such the scale of our detailed testing was reduced and for some entities we did not carry out any work at all. We still audited the major projects and the coverage over expenditure, claims and accruals remained unchanged. However the level of testing over smaller accounts within subsidiary entities (e.g. inventory, prepayments, etc.) was substantially reduced.
- We shall only review the financial statements of the entities requiring a statutory audit.
- We have set out the level of detailed testing we will carry out over each entity in the table below.

Statutory Audit required to local materiality	Entity a critical component (significant work was carried out approx 90% of the work carried out in the prior year)	Entity a major component (some work was carried out approx 50% of the work carried out in the prior year)	No work required and no audit work performed
TfL Group	London Underground Ltd	Rail for London Ltd	City Airport Rail Enterprises plc
TfL Corporation	London Bus Services Ltd	Docklands Light Railway Ltd	Woolwich Arsenal Rail Enterprises Ltd
TTL Group	LUL Nominee BCV Ltd	Tramtrack Croydon Ltd	City Airport Rail Enterprises (Holdings) Ltd
Crossrail Ltd	LUL Nominee SSL Ltd	Transport for London Finance Ltd	Woolwich Arsenal Rail Enterprises (Holdings) Ltd
Victoria Coach Station Ltd	Tube Lines Ltd.	Tube Lines (Finance) plc.	London Buses Ltd
LTIG			London River Services Ltd
London Transport Museum Ltd			Tube Lines (Holdings) Ltd.
London Transport Museum (Trading) Ltd.			

Proposed form of Representation Letter

To be provided to KPMG on TfL letter headed paper

Robert Brent
Partner
KPMG LLP
15 Canada Square
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E14 5GL

Dear Robert

This representation letter is provided in connection with your audit of the financial statements of Transport for London Group ('the Group') and Transport for London ('the Corporation'), for the year ended 31 March 2014, for the purpose of expressing an opinion as to whether these financial statements:

i. give a true and fair view of the financial position of the Group's and the Corporation's affairs as at 31 March 2014 and of the Group's and Corporation's expenditure and income for the financial year then ended;

ii. have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Group and Corporation Balance Sheets, the Group and Corporation Comprehensive Income and Expenditure statements, the Group and Corporation Movement in Reserves Statement and the Group and Corporation Cash Flow Statements for the year then ended, and the related notes.

I confirm that the representations made in this letter are in accordance with the definitions set out in the Appendix to this letter.

I confirm that, to the best of my knowledge and belief, having made such inquiries as considered necessary for the purpose of appropriately informing myself:

Financial statements

1. I have fulfilled my responsibilities, as set out in the terms of the audit engagement for the year ended 31 March 2014, for the preparation of financial statements that:

    i. Give a true and fair view of the financial position of the Group and the Corporation as at the end of its financial year and of the Group's and Corporation's expenditure and income for the year then ended; and

    ii. Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

    The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. I have provided you with:

    – access to all information of which I am aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

    – additional information that you have requested from me for the purpose of the audit; and

    – unrestricted access to persons within the Group and the Corporation from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

Proposed form of Representation Letter (cont.)

7. I confirm the following:
   i. I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.
   ii. I have disclosed to you all information in relation to:
      a. Fraud or suspected fraud that I am aware of and that affects the Group and the Corporation and involves:
         - management;
         - employees who have significant roles in internal control; or
         - others where the fraud could have a material effect on the financial statements; and
      b. Allegations of fraud, or suspected fraud, affecting the Group and the Corporation's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, I acknowledge my responsibility for such internal control as I determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. I have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. I have disclosed to you the identity of the Group and the Corporation's related parties and all the related party relationships and transactions of which I am aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
11. I confirm that:
    a. The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Corporation's and the Group's ability to continue as a going concern as required to provide a true and fair view.
    b. Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Corporation and the Group to continue as a going concern.
12. On the basis of the process established and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with my knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    I further confirm that:

    a. all significant retirement benefits, including any arrangements that are:
       – statutory, contractual or implicit in the employer's actions;
       – arise in the UK and the Republic of Ireland or overseas;
       – funded or unfunded; and
       – approved or unapproved,

    have been identified and properly accounted for; and

    b. all plan amendments, curtailments and settlements have been identified and properly accounted for.
13. I also confirm that

    [Any specific reps required]

These Financial Statements were approved by the Board on [3] July 2014.

Yours faithfully,

David Goldstone

Chief Finance Officer

Proposed form of Representation Letter (cont.)

Appendix to the Representation Letter of Transport for London: Definitions

Financial Statements

A complete set of financial statements comprises:

- Group and Corporation statements of financial position as at the end of the period;
- Group and Corporation statements of income and expenditure for the period;
- Group and Corporation movement in reserves for the period;
- Group and Corporation statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a. was available when financial statements for those periods were authorised for issue; and
b. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to 'management' should be read as 'management and, where appropriate, those charged with governance'.

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the 'reporting entity').

a. A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b. An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

Proposed form of Representation Letter (cont.)

Related parties (cont.)

ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi. The entity is controlled, or jointly controlled by a person identified in (a).

vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

b. a government that has control, joint control or significant influence over the reporting entity; and

c. another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

cutting through complexity

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