

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL AUDIT AND INSPECTION LETTER 2008

DATE: 25 NOVEMBER 2008

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to inform the Committee of the Annual Audit and Inspection Letter as prepared by the Audit Commission.

2 BACKGROUND

- 2.1 TfL, in common with other Local Government entities, is assessed by the Audit Commission. The Annual Audit and Inspection letter brings together the work done by the Audit Commission and its appointed auditors (KPMG) in the previous year. It summarises the conclusions by KPMG on the Annual Statement of Accounts, Use of Resources and Data Quality. It also includes in full the Audit Commission's conclusions from its work on TfL's Direction of Travel.

3 RECOMMENDATION

- 3.1 The Audit Committee is asked to NOTE the Audit Commission Annual Audit and Inspection Letter.

4 CONTACT

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Annual Audit and Inspection Letter

Transport for London

Audit 2007/08

November 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

- 1 The key messages and recommendations from our audit and inspection work are set out in table 1 below.

Table 1 Key outcomes and recommended actions

Area	Key messages	Recommended action
Accounts		
Opinion	KPMG issued an unqualified audit opinion on 22 July 2008.	None.
Use of resources		
Initial performance assessment follow-up - direction of travel	TfL has made good progress on improving outcomes in priority areas during the year. This is against a background of increases in use of public transport.	Along with continuing the momentum for improvement, TfL should develop a corporate approach to benchmarking integrated into the performance management framework.
Initial performance assessment follow-up - use of resources	TfL has again maintained an overall score of four in respect of its use of resources which means it is performing strongly – well above minimum standards.	Continue to review management arrangements over economy, efficiency and effectiveness.
Value for money conclusion	KPMG issued an unqualified value for money conclusion on 22 July 2008.	None.

Purpose, responsibilities and scope

- 2 This letter provides an overall summary of the Audit Commission's assessment of TfL, based on audit and inspection work performed in relation to the accounting period ended 31 March 2008, and from a wider analysis of TfL's performance and its improvement over the last year.
- 3 The report is addressed to TfL, in particular it has been written for Board members, but is available as a public document for stakeholders, including members of the community served by TfL. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 4 KPMG are TfL's appointed auditors. They are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, KPMG are required to review and report on:
 - TfL's accounts; and
 - whether TfL has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).
- 5 The letter commences with a summary of the outcome of KPMG's audit of the accounts. It then considers TfL's use of resources, including the annual refresh of the 'initial performance assessment' (IPA), undertaken in 2004, and the value for money conclusion, including the outcomes from specific reviews carried out in the year.
- 6 We have listed the reports issued to TfL since our last audit and inspection letter at the end of this letter for information.

Accounts

- 7 The overall outcomes of KPMG's audit of TfL's accounts for the year ended 31 March 2008 are:
 - an unqualified opinion, issued on 22 July 2008; and
 - a conclusion on TfL's arrangements to secure economy, efficiency and effectiveness in its use of resources was issued to say that KPMG were satisfied that proper arrangements were in place for the year ended 31 March 2008.
- 8 The timetable for preparation of the group and subsidiary company accounts was consistent with the prior year, and deadlines were met at each reporting level. The complex accounting issues that arose in respect of transactions in the year relating to Metronet required detailed consideration but did not delay the key reporting deadlines.
- 9 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2007: the Statement of Recommended Practice ('the SORP'). The 2007 SORP introduced changes to the form and content of the accounts for 2007/08, primarily relating to adoption of FRS 25, 26 and 29 on Financial Instruments and the introduction of a GAAP compliant Revaluation Reserve and a Capital Adjustment Account. These changes were discussed early between KPMG and TfL and the required changes implemented effectively.
- 10 The two Metronet operating companies responsible for maintenance and upgrade of a substantial proportion of the Underground network were put into PPP Administration on 18 July 2007. Work on transferring the Metronet business operations (comprising the PPP contracts, people, assets and liabilities) to TfL has now been completed following the Mayor's approval of the transfer scheme in April and Court approval on 23 May 2008. Largely as a result of this transfer not being complete at 31 March 2008, a number of complex accounting issues needed to be considered in the 2007/08 accounts. This led to considerable and thorough discussion between KPMG and TfL's finance team on the appropriate accounting treatment for these unusual transactions. The disclosures included in the accounts make the treatment adopted clear to readers.
- 11 In a statement in the March 2007 budget the Chancellor confirmed that the public sector would be required to adopt International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. The timetable requires adoption for 2010/11. 2009/10 accounts will be required to be restated for comparative purposes. TfL's group finance team are aware of the proposed timeline for adoption of IFRS and working towards it.

Use of resources

- 12 The results of the IPA are followed up via two assessment processes, based on the 2008 local government approach, but tailored individually to the context of TfL:
 - a non-scored direction of travel assessment; and
 - a scored use of resources assessment.
- 13 KPMG are also required to issue a conclusion on whether they are satisfied that TfL has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Initial performance assessment follow-up

Direction of travel

- 14 TfL continues to make good progress against its goals and the realisation of the long term transport vision for London. Key achievements in relation to last year are set out below.
- 15 Demand for travel on public transport has continued to increase. In 2007/08, there were 3,346 million passenger journeys, 42 million more than target and 173 million more than 2006/07. London Underground, London Buses and the DLR all carried record numbers of passengers during the year, with passenger increases ranging between five and nine per cent across these public transport modes compared with the previous year.
- 16 In spite of increased passenger demand and service disruptions, there have been good levels of public transport provision and reliability. Between 95 to 99 per cent of scheduled public transport services were operated last year. A high percentage of public transport was on time. The level of delay on public transport was overall maintained at last year's levels against a background of increased passenger numbers, industrial action by Metronet staff and major road works.
- 17 TfL continues to contribute effectively to broader economic objectives. The DLR London City Extension has been successful with local people, with almost 90 per cent feeling that it has improved access to jobs, shopping and central London; and attracted new people to move into the area. The Piccadilly line extension to Heathrow Terminal 5 was delivered on time and is expected to serve three million passengers a year by 2010. The condition of the strategic highway network in London has improved over the last six years with 94 per cent of the TfL road network in good structural condition.

Use of resources

- 18 The transport network in London is safer. Over the last two years crime rates on both bus and London Underground/DLR have decreased. Crime is now at its lowest rate since 2003. The biggest reductions in the last year have been the level of robbery and criminal damage. Initiatives such as increased visible policing on public transport have contributed to this. TfL continues to perform well at reducing road accident casualties ahead of national targets. Road accident casualties have also reduced for more vulnerable groups such as children and people from black, asian and minority ethnic communities (BAME).
- 19 Sustainable modes of travel have continued to increase through more targeted initiatives. Last year cycling on London's major roads grew by a further 4.5 per cent, exceeding targets, with an estimated 20,500 more cycle journeys being made in London every day. School travel plans achieved an average reduction in car trips of 6 per cent. Work place travel plans covering 10 per cent of employees in London achieved an average reduction in car use of 13 per cent. TfL is well placed to build on its overall five per cent switch from private car to public transport usage between 1999 and 2006.
- 20 A range of initiatives have been delivered to enhance the environment and integrate sustainability. Ninety-six per cent of vehicles affected by the first phase of the Low Emission Zone are compliant with the emissions standards of the Zone compared to 70 per cent during 2007. The Streets for People project in The Cut in Lambeth has reduced car domination and been designed using high quality sustainable materials. Sustainability has been integrated into procurement and infra structure projects such as a new Hydrogen bus fleet and the East London line extension respectively.
- 21 Good levels of customer satisfaction have been maintained. Individual public transport mode satisfaction levels remain high, achieving target levels with marginal improvements compared with the previous year.
- 22 TfL's commitment to better employment practices has been recognised as notable practice. It was awarded the Local Government Equality Standard Level 5 rating. This is the highest possible score, and one that has never before been achieved by a transport authority. The workforce compares favourably with London Boroughs for staff with disabilities and from BAME's. With the exception for staff with disabilities targets for ensuring a representative workforce were broadly met last year, with targets for BAME staff exceeded.
- 23 Accessibility is improving. For example, in the last year five more underground stations have been made step free. London Buses award winning iBus system's on-board 'next stop' audio visual displays and announcements, make bus travel much easier for everyone, including passengers with disabilities. There are some areas where accessibility is improving from a low base, particularly in relation to the percentage of pedestrian crossings with facilities for disabled people and fully accessible bus stops.
- 24 There have been good outcomes in tackling social exclusion. Free fares for young people and other fare initiatives have increased bus passenger numbers by 5 per cent. After a difficult two years Dial a Ride services are improving with increasing passenger numbers, improved reliability, increased membership requests and the roll out of a new custom built fleet which will provide greater flexibility.

- 25 Value for money is improving well. Last year services were delivered within or better than target at the same time as maintaining high customer satisfaction levels. While passenger demand increased, costs reduced including overall net operating expenditure. There has been a good track record of timely on budget delivery of capital schemes that have realised intended benefits. TfL continues to significantly exceed its annual efficiency savings targets. In 2007/08 it delivered £233 million of savings through a combination of back-office and operational efficiencies. This exceeded its target by £16 million and was a 21 per cent increase on the previous year's savings.
- 26 Sound plans for improvement are in place. A fully resourced medium term business plan is in place with clear targets for improvement. These are supported by a range of associated new plans such as an updated community safety plan, highway asset management plan and Local Implementation Plans (LIPs). Plans are also well informed by user and staff consultation and are being updated to reflect new Mayoral policies and future demands.
- 27 In the context of planning there is potential for improved transparency in the current approach to prioritisation. The use of a systematic and transparent approach such as a weighted matrix to ensure that all services make an even contribution to TfL's objectives should be considered. Engagement at a strategic level as part of the business planning process with stakeholders such as Boroughs could be enhanced.
- 28 The pace of improvement has been good. Investment programme projects are on track including Olympic Games related projects. Good progress is being made in implementing manifesto commitments of the new Mayor such as the alcohol ban on public transport. Other important milestones achieved in the year include - the sign off of LIPs for all 33 Boroughs and the implementation of a real time passenger booking system for Dial-a Ride. The review phase for the operational cost review has been completed and options to deliver approximately £2.4 billion of savings are under consideration.
- 29 Capacity is strong and improving. TfL has continued to maintain its strong financial standing. Overall, human resource policies have been effective as - sickness absence levels have continued to reduce, critical vacancies have been filled and learning and development is well targeted. However, succession planning is at the early stages of implementation. ICT is adding more capacity by creating efficiencies, enabling joint working with stakeholders and providing more flexibility to respond to customers. There is a policy move towards closer working with the Boroughs through the LIP process which will enable more local priorities to be delivered, longer term funding to be granted and less but larger thematic schemes to be delivered.
- 30 Governance arrangements have been strengthened. Project gateway review processes are now better integrated. Risk management, whistle blowing and anti fraud procedures have become further embedded in the organisation. There is good learning from others and use of benchmarking at an operational level to improve value for money. However, there is not yet a well developed corporate approach to benchmarking to establish quality standards across the organisation. With the balance of focus on why TfL is unique rather than similar to other organisations, opportunities to build a more balanced picture of quality to inform improvement could be missed.

Use of resources

Use of resources judgements

31 The use of resources judgements assess how well authorities manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support priorities and improve services. KPMG are required to form judgements for each of the five themes that comprise the overall use of resources assessment.

- Financial reporting (including the preparation of TfL's accounts and the way these are presented to the public).
- Financial management (including how financial management is integrated with strategy to support TfL's priorities).
- Financial standing (including the strength of TfL's financial position).
- Internal control (including how effectively TfL maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well TfL balances the costs and quality of services).

32 Each theme was scored on the following basis.

Table 2 Description of the scores reached

Score/level	Description
1	Below minimum requirements – inadequate performance.
2	Only at minimum requirements – adequate performance.
3	Consistently above minimum requirements – performing well.
4	Well above minimum requirements – performing strongly.

Source: Audit Commission

33 TfL has continued to maintain its score of 4 and is performing strongly. This is the highest category.

Table 3 Use of resources scores

Area	Score 2008	Score 2007
Financial reporting	4 out of 4	4 out of 4
Financial management	4 out of 4	4 out of 4
Financial standing	4 out of 4	4 out of 4
Internal control	4 out of 4	3 out of 4
Value for money	4 out of 4	4 out of 4
Overall	4	4

Source: Audit Commission

Use of Resources Assessment

34 An improvement in performance in a number of areas has been noted since 2006/07. For example:

- TfL have further enhanced risk management processes and ensured that consideration of risk is embedded within all areas of the business; and
- counter fraud activities have become more embedded and there is evidence that a counter fraud culture is being actively promoted.

35 Some key issues to work on to enhance arrangements include:

- as new businesses are integrated into the TfL group, TfL needs to ensure that they have appropriate systems of internal control which meet TfL's standards and requirements and which operate effectively. Whilst preparatory work has taken place on new business joining the group in 2008/09, TfL needs to ensure that the system of internal control is consistently effective across the TfL group; and
- TfL have initiated a number of projects which demonstrate the adoption of innovative means to provide value for money. TfL should continue to explore and identify innovative ways of providing value for money across all modes and functions.

Counter-fraud arrangements

36 TfL continues to participate in and respond appropriately to the National Fraud Initiative, which is the Audit Commission's data matching exercise, designed to detect fraud perpetrated on public bodies.

Use of resources

Financial position

- 37 TfL's financial standing was assessed as part of the audit for 2007/08. TfL have consistently maintained overall spending within budget. Overspends are often due to positive decisions to incur additional costs. Although unexpected events give rise to additional expenditure from time to time these are managed within available funds.
- 38 TfL have developed a strategy for the use of ear marked reserves which maps how they will be utilised.

Closing remarks

- 39 This letter has been discussed and agreed with Stephen Critchley. A copy of the letter will be presented at the Audit Committee meeting on 25 November 2008.
- 40 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to TfL during the year, set out in the table below:

Table 4 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Report to those charged with governance	June 2008
Opinion on financial statements	July 2008
Value for money conclusion	July 2008
Whole of government accounts submission	August 2008
Use of resources auditor judgements	November 2008
Annual audit and inspection letter	November 2008

Audit fee update

- 41 The estimated fee proposals were reported as part of the 2007/08 Audit Plan. The table overleaf confirms the outturn fee as reported and approved by the Audit Committee.

Closing remarks

Table 5 Fee update

	Plan 2007/08	Actual 2007/08
Financial Statements and Statement on Internal Control	£270,000	£365,205*
Use of resources and data quality	£110,000	£110,000
Total audit fee	£380,000	£465,205
Inspection	£26,000	£26,000
Total audit and inspection fee	£406,000	£491,205
Grant claim certification	£15,000	£27,977**

* Includes additional fees for audit of financial instruments, additional IT audit work and responses to queries from electors and the London Assembly.

* * Includes 2006/07 grant claims that were certified during 2007/08. There was an under spend of some £8,000 in 2006/07.

42 Finally, we would like to take this opportunity to thank TfL and its officers for the assistance and cooperation received during the course of our work this year.

Ken Davis
Relationship Manager
November 2008

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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