Audit and Assurance Committee

Date: **19 June 2013**

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 2013.

2 Recommendation

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

3 Background

3.1 KPMG have 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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KPMG

cutting through complexity™

Transport for London

ISA260 Report to Those Charged with Governance

2012/13

For presentation at the Audit and Assurance Committee

19 June 2013

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 Wayne Southwood, 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) 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 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; ■ For the TfL and TTL Group Financial Statements, audit testing over your consolidation process; and ■ For the TTL subsidiaries, audit testing over the reporting packs and individual financial statements. 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: ■ 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 this 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 a review of the final Financial Statements, which we plan to do immediately prior to signing the accounts. As of 11 June 2013, we had not completed our audit work in respect of Remuneration, taxation, Financial Commitments, Unusable Reserves, Provisions, Sources of Finance, Financial Assistance and Related Parties, due to the timing of the information being made available. We are currently completing our post year end journal testing, a review of the financial forward and a review of subsequent events. Subject to satisfactory completion of the remaining procedures, including receipt of a management representation letter and a review of the final version of the Financial Statements, we expect to issue an unqualified opinion on TfL's Financial Statements. To the extent that we have completed the procedures set out above, we shall provide a verbal update of our findings at the Audit and Assurance Committee meeting.
Audit differences	As at 11 June 2013 we have identified 5 audit adjustments, all of which have been amended by management. The total impact of these adjustments was a £42.4m debit to the Group Comprehensive Income and Expenditure Statement. See Appendix A. We are still reviewing whether all of the required disclosures have been included within the Financial Statements and will update the Audit and Assurance Committee verbally.
Recommendations and observations	We have not identified any significant control weaknesses that impact on our ability to issue an opinion on the financial statements. We have identified seven control recommendations arising from our work which we have discussed with management, and the key themes are set out below. In addition we noted a number of minor process improvement observations which we have shared with management, as we did in the prior year. All prior year recommendations have been formally responded to by management and are in the process of being implemented. *Property* Currently there is a lack of formal documentation over the processes operated within the property division, and in particular how the operational reviews and procedures undertaken link to the financial reporting. In formally documenting all such processes the key controls over existence and completeness will be highlighted providing comfort that these key risks are fully covered in terms of the property assets recorded within SAP. An action plan has been agreed that will formally document all of the processes by the end of quarter 2, and this will be reviewed at that time to confirm that all relevant controls have been captured. *LUL Fixed Assets* During the year the processing over the LUL fixed assets has moved across to the financial shared service centre. We commented in prior years on the informality of the controls operated within LUL with few processes being formally documented. This lack of formality has however been exposed in the transfer of processes where there is a need to transfer and embed processes. This has led to gaps in processes at year end (eg identification of assets to be disposed, and the assessment of capex vs opex for certain costs incurred), as highlighted in certain of the audit adjustments posted. Management have noted that they are aware of the additional actions required to ensure that the processes and assessment are fully embedded within the FSC. Management note that the established TfL project which has been implementing the changes in fixed asset processing will continue to provide oversight while these remaining items are embedded.

Headlines (cont'd)

Recommendations (cont.)	*Intercompany* In the previous year we highlighted issues encountered in terms of the time required to reconcile intercompany accounts, due to different views taken on specific accruals and items in formal dispute. We have noted a marked improvement in the current year with fewer items in disagreement, and historic disputed items having been settled and agreed. The further integration of entities within Rail and Underground will improve the regular reconciliation process, and plans are in place to remove any items that could be subject to potential disagreement. *Accounts Payable* Staff operating accounts payables controls had not followed document retention policies, in line with TfL procedures. We recommend all relevant staff are reminded of the need to retain documents securely, and of the importance of rigorous checks. At our suggestion, management have revised processes to enable electronic retention of documents. *HR* HR records are retained by local managers and are not always returned to the centre and retained. This has led to gaps in data and inconsistencies in the use of documents. Policies and procedures in this area require revision and the roles and responsibilities of the team centrally vis-a-vis the role of HR managers in the business requires clarification. Training should be provided to relevant officers. Management have informed us that they are in the process of producing easy to use guidance so that the business is aware of what should be held locally and what should be sent to HRS. *Cashflow monitoring* There are various teams across the Group with responsibilities for monitoring cashflows, with TfL's treasury team having overall responsibility for the management of cash held at the bank. We noted that whilst responsibility for the physical management of cash has been clearly assigned to the Treasury team, Group-wide reconciliations between general ledger accounts, bank statements and detailed cashflow forecasts are not currently operating effectively. Compensating controls are in place at local levels. Internal audit have raised similar issues in recent reviews of these areas. We recommend that a single central team performs a reconciliation of all TfL bank accounts on a monthly basis to SAP, and also ties these back to forecasts of monthly inflows and outflows. Meaningful narrative should be provided for any exceptional items. Management note the need for a single central team having responsibility for the coordination of all bank reconciliations and the FSC are working with Treasury towards designing and implementing a revised process. Management will look further into improving reporting on variances between cashflow forecasts and actual periodic movements. *IT Controls* Our IT audit specialists audited the key IT controls in place in the two main IT environments in the Group. We noted two key points: there continue to be issues with regard to the number of users granted superuser access rights to the core IT environment, while in another key environment the controls over access rights are not as robust as they could be, due to configuration issues. While these risks are mitigated by the controls operated outside the IT systems (e.g. regular reviews and reconciliations), and such controls on testing were found to be operating effectively, this remains an area where we recommend action is taken to reduce the inherent risk arising from these IT related matters. We have shared our detailed findings with the relevant management teams and actions are being developed to address the risks identified.

Headlines (cont’d)

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 2013 and anticipate meeting the deadline of 7 October 2013.
Fraud	We have 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.
Value for money conclusion and audit certification	We are awaiting some information in relation to highly paid employees, prior to concluding on this work. We are required to certify that we have completed the audit of the Financial Statements in accordance with the requirements of the Code. We cannot formally conclude the audit and issue an audit certificate until we have completed our work on the WGA. We anticipate we will issue our certificate in August once this work has been completed.

Below are outlined the activities we have completed throughout 2012/13. We have completed these activities in line with our Audit Plan presented to the Audit and Assurance Committee in October 2012. 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 2013.

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 for the individual entities on 23 April 2013 in accordance with the agreed timetable. Per the TfL timetable the consolidation model and draft Group financial statements were due on 15 May 2013. Due to concerns over the quality of information provided from the business and other issues over the consolidation of the results, Group Finance were delayed in providing the consolidation model and consolidated financial statements. 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, in all material respects. TfL's finance staff were available throughout the audit visit to answer our queries as they arose. 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 to 11.
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 the Code. We have attached a copy of the proposed form of this letter at Appendix B.
Other matters	There were changes to materiality made in the course of the audit work. This was due to the instructions of the GLA Group auditors being received in December, after our planning memo being issued to TfL. Subsequently the instructions were revoked, as such KPMG reverted to the materiality levels reported and agreed at the 4 October 2012 Audit and Assurance Committee. 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 2012/13 this provides confirmation that:

- The Financial Statements present a true and fair view of the state of the Group's and Corporation's affairs as at 31 March 2013; and
- The Financial Statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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.)

Below we outline the four 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:

Key audit risks	Impact on audit plan (from audit plan)	Work undertaken	Conclusions
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.	■ 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	■ No matters to report to the attention of the Audit and Assurance Committee ■ The processes employed for monitoring and allocating the funding arrangements are operating effectively

Financial Statements (cont.)

Below we outline the four 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:

Key audit risks		Impact on audit plan (from audit plan)	Work undertaken	Conclusions
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.	■ Reviewed the methodology followed in calculating the indicator. ■ Re-performed the calculations in the papers to the Finance and Investment Committee. ■ Agreed the calculations on prudential indicators through to the Business Plan.	■ No matters to report to the attention of the Audit and Assurance Committee ■ The methodology followed is appropriate and the calculations used by management to monitor compliance are accurately recorded
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.	■ Met with the TfL legal team and discussed the process of collating claims and disputes and the status of all significant outstanding claims. ■ We understood management's basis for provisions made and challenged the adequacy based on the merits of the claim and history of past settlements. We obtained the relevant documentation to support any amounts settled. ■ To ensure completeness we held discussions with project accountants and the commercial teams on sites on major ongoing projects. ■ Challenged management's estimation process in light of current settlements.	■ No matters to report to the attention of the Audit and Assurance Committee. ■ The processes established for evaluating claims and determining any provisions required is robust ■ The settlement of claims in recent periods has evidenced the accuracy of the estimation process

Financial Statements (cont.)

Key audit risks		Impact on audit plan (from audit plan)	Work undertaken	Conclusions
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.	■ Reviewed the updated processes put in place following the transition of fixed asset accounting to the FSC and tested controls over additions, disposals, write-offs and transfers out of AUC. ■ Selected over 30 project samples to substantively test expenditure incurred during the year and material accruals at year end. ■ Held meetings with project accountants (at sites) to understand process of identifying aborted projects and any potential impairments. Analysed project spend year on year and compared it to budgets to sense check completeness of write-offs. ■ Performed predictive analytical procedures on depreciation.	■ Except for the control deficiencies noted on pages 4 and 5 and audit differences on page 14 there were no other matters to report

Financial Statements (cont.)

The following pages are for information and outline the approach we have taken on key material lines in the financial statements:

Other areas of audit focus	Impact on audit	Work undertaken	Conclusions
Fare revenue	Significant IT element with the Prestige ticketing system. In the absence of robust reconciliations there is a risk of cash misappropriation and misstatement of revenue. Cut-off and revenue recognition on travel cards. Allocation and apportionment of revenue is subjective is based on survey data and the Clearance agreement with RSP.	■ Tested the PAYG IT general controls and the 212b exception report to reconcile cash collection from stations. ■ Performed walkthrough of procedures for cash and credit sales at Waterloo station. ■ Performed walkthrough of cash collection process by G4S. ■ Tested the operating effectiveness of FSC reconciliation process for two periods. ■ Tested the revenue apportionment and allocation process for each quarter. ■ Tested cut-off procedures over deferred revenue. ■ Performed predictive analytical procedures over revenue in all entities.	■ No matters to report to the attention of the Audit and Assurance Committee ■ All key controls tested were found to be operating effectively
Property valuations and process controls over transactions	Significant property portfolio subject to valuation, part of which is done internally. Classification between investment properties and infrastructure under IFRS is judgemental. We have noted control deficiencies over completeness and documentation in prior years.	■ Involved our valuation specialists to independently challenge management's assumptions. ■ Held discussions with DTZ and Cushman & Wakefield along with the TfL Property team. ■ Performed walkthroughs over property additions and disposals and subsequent recording in SAP. ■ Substantively tested documentation and audit trail over property additions and disposals including review of lease contracts and accounting thereof.	■ Except for the control deficiencies noted on pages 4 and 5, there were no other matters to report

Financial Statements (cont.)

Other areas of audit focus	Impact on audit	Work undertaken	Conclusions
Treasury	Outstanding derivative contracts need to be tested for hedge effectiveness in line with IFRS guidance. Extensive disclosures in group and subsidiary accounts.	■ 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 Committee ■ Reviewed key IAS 39 accounting polices and IFRS 7 disclosures	■ No matters to report to the attention of the Audit and Assurance Committee, other than the control recommendation on cashflow monitoring discussed on page 5
Defined benefit pension	Significant pension deficit on group balance sheet. Valuation subject to complex actuarial assumptions.	■ Involved our actuarial specialists to independently challenge management's assumptions and held discussions with Punter Southall ■ Reviewed the appropriateness of the IAS 19 valuation methodology ■ 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 ■ The key 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.

The two questions which are the focus of the VFM work are as follows:

1. 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 foreseeable future.
2. The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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 in value for money. We are awaiting some supporting evidence in relation to highly paid employees, prior to concluding our work

VFM Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, subject to completing our work in relation to highly paid employees 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 2013.

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 2013.

Unadjusted audit differences

We note there were no unadjusted audit differences.

Adjusted audit differences

We identified a number of adjustments which were above our posting threshold but below our performance materiality threshold (both individually and in aggregate). The net impact of these adjustments was a £42.4m debit to the Group Comprehensive Income and Expenditure Statement . In addition to the items outlined below, we identified that there were three projects in LUL which were 'ready for service' but had not been transferred out of 'Assets under construction'. These assets had a book value of £39.4 million. The same issue arose in Surface Transport with assets with value of £25m being mis-classified as 'Assets Under Construction'. There was no overall balance sheet adjustment, but this affected the fixed asset disclosure note. The depreciation effect on these items was below our posting threshold. There was also a misclassification between long terms and short term investments of £6.8m.

Company	Description of adjustment	Balance sheet Dr / (Cr)	Income statement Dr / (Cr)
London Underground Limited	Costs incorrectly classified between capital and revenue on certain projects	(£21.7m)	£21.7m
	Unaccounted de-recognition of net book values in relation to assets disposed	(£20.7m)	£20.7m

Presentational Issues

We identified minor presentational issues during our audit, all of which have been amended by the management. We are currently reviewing the disclosures in the Financial Statements.

Other matters

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

Proposed form of Representation Letter

To be provided to KPMG on TfL letter headed paper

KPMG LLP
15 Canada Square
London
E14 5GL

[Date]

Dear Sir

This representation letter is provided in connection with your audit of the financial statements of Transport for London ('the Corporation') and the consolidated financial statements of the Transport for London Group ('the Group'), for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether these financial statements:

- give a true and fair view of the state of the Group's and the Corporation's affairs as at 31 March 2013 and of the Group's and Corporation's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements for the year ended 31 March 2013 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 I make 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 enquiries as it 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 2013, for the preparation of financial statements that:
   i. give a true and fair view of the state of the Group's and the Corporation's affairs as at the end of its financial year and of the Group's and Corporation's expenditure and income for the year then ended;
   ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13; and
   iii. 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 2012/13 require 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]

Proposed form of Representation Letter (cont.)

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.

7. 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 the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

9. 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.

10. 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. Further, I have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements in accordance the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. I have disclosed to you the identity of the Group's and the Corporation's related parties and all the related party relationships and transactions of which I am aware and 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 2012/13.

I confirm that:

a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Corporation's and 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.

On the basis of the process established and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the valuation of pension schemes liabilities are consistent with my knowledge of the business. I further confirm that all :

a) 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 settlements and curtailments have been identified and properly accounted for.

I also confirm that:

[TBC]; and
[TBC].

These Financial Statements were approved by the Board on [03] July 2013.

Yours faithfully,

David Goldstone
Chief Finance Officer

Proposed form of Representation Letter (cont.)

Appendix A to the Representation Letter of Transport for London: Definitions (cont.)

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 comprehensive income for the period;
- Group and Corporation statements of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- a statement of financial position as at the beginning of the earliest comparative 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.

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 the following:

- 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 party

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 person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Proposed form of Representation Letter (cont.)

An entity is related to a reporting entity if any of the following conditions applies:

- 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).
- 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).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- 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.
- The entity is controlled, or jointly controlled by a person identified in (a).

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:

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