

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: ANNUAL AUDIT LETTER 2008/09**

**DATE: 29 SEPTEMBER 2009**

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**1 PURPOSE AND DECISION REQUIRED**

- 1.1 The purpose of this paper is to inform the Committee of the draft Annual Audit Letter as prepared by KPMG.

**2 BACKGROUND**

- 2.1 The Annual Audit Letter summarises the conclusions by KPMG on the Annual Statement of Accounts and Use of Resources. The Annual Audit Letter remains as a draft until 19 October 2009 when the Audit Commission notify the overall Use of Resources score.
- 2.2 In previous years this letter has been presented as a joint Annual Audit and Inspection Letter from the Audit Commission. The Inspection letter from the Audit Commission for 2009 will form part of the Comprehensive Area Assessment to be issued by the Audit Commission in early December.

**3 RECOMMENDATION**

- 3.1 The Audit Committee is asked to NOTE the KPMG Annual Audit Letter.

**4 CONTACT**

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INFRASTRUCTURE,  
GOVERNMENT AND HEALTHCARE

## **Annual Audit Letter 2008-09**

Transport for London  
September 2009 - DRAFT

AUDIT

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### 1. Reports issued

This report is addressed to Transport for London and has been prepared for the sole use of Transport for London. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact June Awty, who is the engagement partner to Transport for London, telephone 0207 311 1769 email [june.awty@kpmg.co.uk](mailto:june.awty@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Transport for London ("TfL"). Although this letter is addressed to the Board members of TfL, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of TfL to publish the letter on the TfL website. In the letter we comment on our audit work at TfL over the last year. We have already reported the matters covered in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 2.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - that is whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources. Our work in this area is summarised in section 2; and
- *accounts* – that is the Financial Statements and the Annual Governance Statement. This work is summarised in section 3.

### Key Messages

The key areas which we draw to your attention to are:

- This was the first year of the new use of resources framework, introduced by the Audit Commission, which assesses TfL against three themes: managing finances, governing the business and managing resources. The new framework requires a focus on evidence of outcomes and achievements rather than the processes in place which was the main focus of the previous assessment regime. TfL has been assessed overall as performing strongly for managing finances (score of level 4) and performing well for governing the business and managing resources (scores of level 3). The overall assessment score will be notified to TfL by the Audit Commission by 19 October 2009.
- We issued unqualified audit opinions on TfL's financial statements and on its value for money conclusion on 31 July 2009.

### Future Accounting Issues

The timetable for convergence to International Financial Reporting Standards for Local Authorities has been confirmed. Adoption is now required for 2010/11, meaning 2009/10 accounts will be required to be restated for comparative purposes. In addition, as another step towards IFRS implementation, TfL will be required to assess their PFI/PPP schemes under the requirements of International Financial Reporting Interpretation Committee (IFRIC) 12 in the 2009/10 published accounts.

### Acknowledgements

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

## Use of resources

The main elements of our use of resources work are:

- *Use of Resources (UoR)* - we assess how well you manage and use resources by providing scored judgements on arrangements in three areas;
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment and on any local reviews carried out.

The findings from this work are summarised below.

Element of work	Key findings								
<p><b>Use of Resources</b></p>	<p>Our assessment of TfL against the three specified themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" data-bbox="444 654 1173 845"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing Finances</td> <td>4</td> </tr> <tr> <td>Governing the Business</td> <td>3</td> </tr> <tr> <td>Managing Resources</td> <td>3</td> </tr> </tbody> </table> <p>TfL has scored a 3 or above in each individual KLOE within each theme.</p> <p><b>Managing Finances</b></p> <ul style="list-style-type: none"> <li>✓ TfL has a 10 year business plan to which the 2008/09 budget was fully linked. Sensitivity analysis is used to ensure that the plan is updated to reflect current risks and regularly reported to the Finance Committee</li> <li>✓ TfL has historically exceeded its saving targets in prior years and has plans in place to deliver £2.4 billion of savings over the life of the business plan</li> <li>✓ TfL has effective procedures for monitoring in-year financial performance and produces high quality financial statements within a challenging timeframe</li> </ul> <p><b>Governing the Business</b></p> <ul style="list-style-type: none"> <li>✓ TfL has made extensive use of IT to improve customer experience and has effective procurement policies, processes and procedures</li> <li>✓ TfL has revised its framework for data quality</li> <li>✓ A review of Committees and Panels was commissioned by the Board during 2008/09. This resulted in changes which have strengthened governance arrangements</li> <li>✓ Risk management arrangements have continued to be developed and there are many examples of TfL joint working and sharing intelligence with partners</li> </ul> <p><b>Managing Resources</b></p> <ul style="list-style-type: none"> <li>✓ Tackling climate change and enhancing the environment are part of TfL's strategic goals and it investing in programmes that deliver environmental sustainability across the transport network</li> <li>✓ TfL has further strengthened its strategic approach to asset management and has planned its investment needs for the next 9 years</li> </ul>	Area	Score	Managing Finances	4	Governing the Business	3	Managing Resources	3
Area	Score								
Managing Finances	4								
Governing the Business	3								
Managing Resources	3								
<p><b>Value for money conclusion</b></p>	<p>We issued an unqualified value for money conclusion on 31 July 2009. This means that we are satisfied that TfL put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>								

## Financial statements

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### Audit opinion

We issued an unqualified opinion on TfL's group accounts on 31 July 2009. We have also confirmed that the information presented in the Annual Governance Statement is consistent with the accounts and complies with statutory guidance.

Before we give our opinion on the accounts, we are required to report to those charged with governance any significant matters identified. Our report was dated 4 June and was presented to the Audit Committee on 10 June.

### Changes in the TfL group in 2008/09

The TfL Group was expanded during 2008/09:

- Two new companies, LUL Nominee SSL Limited and LUL Nominee BCV Limited, were established to facilitate the transfer of the Metronet PPP contracts, assets and liabilities to TTL. Although these Nominee companies were established during 2007/08, the transfer of the contract, assets and liabilities took place on 27 May 2008. In acquiring the contract, assets and liabilities the group also acquired two small maintenance companies, Metronet REW Limited and Metronet TMU Limited.
- On 27 June 2008 TfL acquired the share capital of Tramtrack Croydon Limited, which included the purchase of subsidiaries, Tramtrack Leasing Limited and Tramtrack Lease Financing Limited.
- On 5 December 2008, the Department for Transport transferred its 50% holding in the share capital of Cross London Rail Links Limited (which changed its name to Crossrail Limited) to Transport Trading Limited resulting in Crossrail Limited becoming a 100% owned subsidiary of the TfL Group.
- In addition, the London Transport Museum, was registered with the Charity Commission on 7 March 2008 as a separate legal entity.

We agreed with the accounting treatment of each of these entities within the consolidated accounts.

### Accounts production and adjustments to the accounts

- The timetable for preparation of group and subsidiary company accounts was similar to the prior year, and deadlines have been substantially met at each reporting level. Whilst certain of the new subsidiaries found the group reporting timetable challenging, this did not have an impact on achievement of group reporting deadlines. The overall quality of working papers available to us for audit continues to be of a high standard.
- We identified a small number of minor presentational adjustments to the notes to the group accounts, all of which were corrected by management.

### Whole of Government Accounts ('WGA')

The deadline for submission of the WGA return to the Department for Communities and Local Government is 1 October 2009. We combined some of our WGA testing with our audit of the accounts and the remaining work will be completed before 1 October.

### International Financial Reporting Standards (IFRS)

TfL's central finance team has a project plan to manage the transition to IFRS and meet the required timetable.

**Appendix 2: Reports issued**

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We set out below the reports issued during the year.

<b>Report</b>	<b>Date issued</b>
2008/09 Audit Plan	4 March 2008
Report to those charged with governance on the audit of the 2008/09 group accounts	4 June 2009
Use of Resources 2009	29 September 2009
Annual Audit Letter 2008/09	October 2009

## Appendix 3: Fees

	Plan 2008/09	Actual 2008/09
<b>Financial Statements and Statement on Internal Control</b>	£271,000	£271,000
<b>Use of resources</b>	£112,500	£112,500
<b>Additional audit work</b>	N/A	£49,870*
<b>Total statutory audit fee</b>	<b>£383,500</b>	<b>£433,370</b>
<b>Non statutory audit work</b>	N/A	£69,583**
<b>Non audit work</b>	N/A	£83,150***

\* Includes fees for enquiries from electors and London Assembly

\*\* Includes fees for grant claims

\*\*\* Includes fee for a review of effectiveness of internal audit and tax advice

The planned audit fee for the Corporation and Group Audit is as set out in the TfL Audit Plan, presented to the Audit Committee in March 2008. All fees shown are net of VAT.

Statutory audit services are, for TfL, services required to meet the Audit Commission's Code of Audit Practice requirements.

Non statutory audit work is audit work performed outside the definition of statutory audit services, such as work on grant claims and returns where an audit certificate is required as a condition of the grant scheme.

Non-audit work represents work other than statutory and non-statutory audit services. The overall maximum allowable without prior agreement of the Audit Commission on non-audit fees billed to TfL Corporation for each financial year is the higher of (i) 20% of the statutory audit fee and (ii) £30,000.