

Date: 1 October 2013

Item 6: Annual Audit Fee for TfL Group - Year Ending 31 March 2014

This paper will be considered in public

1 Summary

1.1 To inform the Committee of the Annual Audit Fee proposed by KPMG for the audit of the Corporation and Group Financial statements for the year ending 31 March 2014. A letter from KPMG is attached. This letter deals with fees for the Corporation and Group audits only, and does not include fees for the audit of subsidiary company financial statements. This is in line with Audit Commission requirements.

2 Recommendation

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

3 Background

3.1 The proposed fee for the audit of the Group and Corporation financial statements for the year ended 31 March 2013 is £222,800. This represents an increase of £14,900 (7.2 per cent) compared with the planned fee for the previous year. The main components of the increase are:

- a) For the last two years, there have been agreed cost overruns on Whole of Government Accounts work reflecting a significant increase in the scope of audit work required by the National Audit Office. KPMG have now proposed an increase in the base audit fee of £5,200 to deal with this scope change;
- b) There is a one-off increase for 2014 of £8,500 in respect of IT audit work that will be required due to a new consolidation system being used for the first time; and
- c) There is also a small increase in the fee for scope changes following revisions to the accounting rules for pensions.

3.2 However, the impact of inflation has been mitigated by efficiencies identified by KPMG.

List of appendices to this report:

Audit fee letter from KPMG

List of Background Papers:

None

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01 October 2013

Dear Sirs

Annual audit fee 2013/14

I am writing to confirm the audit work and fee that we propose for the 2013/14 financial year at Transport for London ('TfL'). Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

The proposed indicative fee for the audit of the Corporation and the TfL Group for 2013/14 is £222,800 (plus VAT). This compares to the planned fee of £207,900 for 2012/13, and an actual fee of £226,100 for 2012/13.

The proposed audit fee represents an increase of 7.2% (based on planned fees), due to changes in scope of brought about the revisions to IAS 19 (£1,200), the increased scope of the WGA (£5,200) and a one-off cost in respect of IT audit work required due to a new consolidation module being tested and used for the first time in 2013/14 (£8,500).

The indicative fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed time frames. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. My assumptions are set out in more detail in Appendix 1 to this letter.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified to 2012/13. We intend to spend time in October and November 2013 meeting with management to discuss the control environment and will issue a detailed plan to the Audit and Assurance Committee in December 2013. We plan to commence our controls work in January 2013. Our audit plan will details the risks identified, planned audit procedures and our fee for the Group. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss

this with the Audit and Assurance Committee, outlining the reasons why the fee needs to change.

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of TfL. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

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 me 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.

Yours faithfully



Robert Brent
Partner

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all areas as agreed with KPMG;
- the fee does not include a provision for any additional work we may incur reviewing your accounting conclusions on complex and unusual matters – the fees for these services will be agreed with you in advance of commencing such incremental work;
- no new entities (subsidiaries, associates, joint entities or joint arrangements) will require to be consolidated into the Group financial statements;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2013/14 financial statements;
- your approach to managing the prudential indicators in accordance with 2013 Prudential Code will be in line with the approach reviewed by KPMG in 2013;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- we will agree a detailed planned approach to the audit of the final financial statements and underlying consolidation model. We will outline this approach in our Annual Audit Plan presented to the Audit and Assurance Committee in December 2013;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.



Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Assurance Committee.

Planned output	Indicative date
External audit plan	December 2013
Report to those charged with governance (ISA260 report)	June 2013
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	July 2013
Opinion on Whole of Government Accounts return	September 2014
Annual audit letter	October 2014