

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

**SUBJECT: ANNUAL AUDIT FEE 2010/11**

**DATE: 15 DECEMBER 2010**

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**1 PURPOSE AND DECISION REQUIRED**

- 1.1 The purpose of this paper is 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 2011. A letter from KPMG is Appendix 1 to this paper. 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.
- 1.2 The Committee is asked to note the paper.

**2 BACKGROUND**

- 2.1 The proposed indicative fee for the audit of the Group and Corporation financial statements for the year ended 31 March 2011 is £311,010. This represents an increase of £23,010 over that for the previous year.
- 2.2 The proposed increase in the fee for audit of the financial statements relates to increased audit work arising from the conversion to International Financial Reporting Standards (IFRS) and the consequent lengthier disclosures in the financial statements. This does not include the audit of the conversion itself. There is also a small increase for the impact of inflation, offset by efficiencies.
- 2.3 The IFRS-related increase of nine per cent compares with an Audit Commission rate increase of six per cent and an average increase of five per cent to ten per cent for listed companies on their transition to IFRS.
- 2.4 KPMG has not proposed an increase in the audit fee for the Whole of Government Accounts submission.
- 2.5 In May 2010, the Audit Commission instructed auditors to cease work on Use of Resources assessments for 2009/10. A new approach to value for money audit work is being discussed for 2010/11, and the Audit Commission has indicated that it anticipates a reduction in work compared with the previous year. There is currently a lack of clarity from the Audit Commission on the work required for 2010/11 and it is, therefore, not possible to agree a fee at this time.
- 2.6 The proposed indicative fee for the audit of the subsidiary company financial statements for the year ending 31 March 2011 is £1,194,000. This represents a decrease of £130,335 compared with that for the previous year, after adjusting for Tube Lines.

- 2.7 There is an increase of five per cent in the fee for audit of the financial statements relating to increased audit work arising from the conversion to IFRS and the consequent lengthier disclosures in the financial statements. As is the case for TfL above, this does not include the audit of the conversion itself. There is also a small increase for the impact of inflation, but this is more than offset by efficiencies, giving an overall reduction in fee.

### **3 RECOMMENDATION**

- 3.1 The Committee is asked to NOTE the fee proposals.

### **4 CONTACT**

- 4.1 Contact: Stephen Critchley, Chief Finance Officer  
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Our ref TfL\_061210

Contact Wayne Southwood

6 December 2010

Dear Stephen

#### **Annual audit fee proposal 2010/11**

We are writing to confirm the audit work and fee that we propose for the 2010/11 financial year at Transport for London ('TfL') for the audit of the TfL Corporation and Group financial statements. Our proposal is based on the risk-based approach to audit planning as set out in the Audit Commission's Code of Audit Practice and work mandated by the Audit Commission for 2010/11.

#### ***Audit fee***

We set out our proposed fee below. We will continue to update our risk assessment as the year progresses and we will review and update our audit fees as necessary. We will keep you informed of any changes.

The total proposed fee for the audit for 2010/11 is £316,510 (plus VAT), excluding our fee for the value for money conclusion. This compares to the total planned fee of £383,500 for 2009/10 (£293,500 excluding Use of Resources). A summary of this is shown in the table below.

<b>Audit area</b>	<b>Planned fee 2010/11</b>	<b>Planned fee 2009/10</b>
Financial statements audit	£311,010	£288,000
VFM Conclusion (2009/10 UoR assessment) *	[TBC]	£90,000
Whole of Government Accounts	£5,500	£5,500
<b>Total audit fee</b>	<b>£316,510</b>	<b>£383,500</b>
One off IFRS rebate paid by Audit Commission	<b>£23,010</b>	-

*\*The fee in relation to the vfm conclusion has not yet been agreed due to uncertainty over the scope of the work required.*

### ***Financial statement audit***

From 2010/11, TfL will be required to prepare financial statements in accordance with International Financial Reporting Standards ('IFRS'). The change to IFRS reporting will increase auditors' ongoing audit work, particularly in respect of the audit of expanded note disclosures in the financial statements. The increase in proposed fee for the audit of the financial statements arises, in part, as a result of this additional audit work. However, the Audit Commission confirm that for all local government bodies it will subsidise an element of the cost of transition to IFRS in 2010/11. The amount of the rebate has been determined by the Audit Commission and was paid by the Audit Commission directly to TfL in summer 2010.

The above fee excludes any additional work on one-off transitional arrangements we may undertake at your request, for example, review of IFRS accounting policies and calculation of first year and prior year comparative adjustments.

The indicative fee is based on a number of other assumptions, which we have summarised in Appendix 1 to this letter. A detailed combined plan for the audit of the financial statements of the TfL Corporation and Group and the TTL Group will be issued in December 2010. This plan details the audit risks identified and planned audit procedures.

### ***Use of resources***

The Audit Commission announced early in 2010 that it is undertaking a review of the approach to local value for money work, with a view to making changes for 2010/11. Following the new Government's announcement that Comprehensive Area Assessment would be abolished, on 26 May the Audit Commission instructed auditors to cease work on Use of Resources assessments for 2010. Work completed to that date was used to support our Value for Money conclusion for 2009/10.

The Audit Commission has not fully scoped the work to be undertaken in relation to reaching a Value for Money conclusion in 2010/11. The assessment will now focus on two thematic areas i) securing financial resilience and ii) prioritising resources in a financially strained economy. The Audit Commission have indicated that they anticipate a reduction in work compared with the previous year. There is currently a lack of clarity from the Audit Commission on the work required for 2010/11 and it is therefore not possible to propose a fee at this time.

### ***Whole of Government Accounts***

We will also review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

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

**Audit team**

As you are aware, June Awty has been lead audit partner for the TfL Corporation and Group audit for five years, and to comply with Auditing Practice Board and Audit Commission independence rules is now required to rotate off that role. I will take on the lead audit partner role from 2010/11. Your remaining team remains unchanged from last year and is set out below.

Name	Role	Contact details
Ross Tudor	Director	ross.tudor@kpmg.co.uk 020 7311 1542
Rebecca Pett	Senior Manager	rebecca.pett@kpmg.co.uk 020 7311 6535
Sarah Green	Manager	sarah.green@kpmg.co.uk 020 7311 6396

**Quality of service**

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](http://www.audit-commission.gov.uk)) or on request.

Yours sincerely



Wayne Southwood  
**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, financial reporting and governance arrangements is not significantly different from that identified for 2009/10;
- The size or complexity of the Group does not substantially increase;
- good quality working papers and records will be provided to support the financial statements by the date we agree with you;
- requested information will be provided within agreed timescales; and
- prompt responses will be provided to draft reports;

Where these assumptions are not met, we may be required to undertake additional work which is likely to result in an increased audit fee.

Any changes to the audit plan will be agreed with you. These may be required if:

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

We liaise with the audit team carrying out the audits of Transport Trading Limited and its subsidiary companies to ensure our approach is efficient and there is no duplication of audit testing. For example, we use one combined team during our interim audit of financial controls at the financial services centre.

## **Appendix 2: Planned outputs**

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

<b>Planned output</b>	<b>Indicative date</b>
Financial Statement audit plan	December 2010
Report to those charged with governance (ISA260 report)	June 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	July/August 2011
Annual audit letter	September 2011