

**Date: 18 June 2014**

**Item 6: KPMG Letter on Independence and Objectivity**

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**This paper will be considered in public**

**1 Summary**

1.1 To report to the Committee on the independence and objectivity of KPMG.

**2 Recommendation**

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

**3 Background**

3.1 KPMG is required to report annually to the Audit and Assurance Committee on their independence and objectivity, taking into account guidance including the Audit Commission's Code of Audit Practice and Standing Guidance for Auditors.

3.2 KPMG have reviewed their procedures and their letter is attached for the Committee's review.

**List of appendices to this report:**

Appendix 1 – letter from KPMG

**List of Background Papers:**

None

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Our ref TfL\_KPMG\_Independence

10 June 2014

Dear Sirs

### **To Audit and Assurance Committee members**

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of Non-Audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by TfL for professional services provided by us during the reporting period. We have summarised the fees paid to us by TfL for professional services during the reporting period in a separate letter. We are satisfied that our general procedures support our independence and objectivity.

### **General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management

- Independent reviews.

A review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs, concluded that we are compliant with APB Ethical Standards in relation to this audit engagement.

Please inform me if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit and Assurance Committee.

We have set out our schedule of Non-Audit fees in a separate letter and set out below the safeguards put in place that bear upon our independence and objectivity.

**Self Interest** - our fees for Non-Statutory Audit and Non-Audit services for the year ended 31 March 2014 have been outlined in our letter to you dated 10 June 2014.

**Self Review** – where necessary any Non-Audit services were provided by different service functions within KPMG using totally separate teams, and management remain responsible for the exercise of all key decisions.

**Familiarity** - KPMG has maintained a high level of independence from TfL in the period of our appointment. Therefore we do not believe there is any issue with our independence now, or on our ability to maintain a healthy scepticism in our dealings with TfL going forward.

**Advocacy** - none of the Non-Audit work carried out by KPMG put us in a position of acting as an advocate for or against a position taken by TfL. Therefore the risk of being seen as acting in an advocacy role is low.

**Intimidation** – neither the scale of our work or its significance to KPMG as a whole is such that we would consider ourselves at risk of an intimidation threat from TfL to change our behaviours in our role as external auditor in order to satisfy TfL in relation to matters we do not concur with.

**Management** - for all work our engagement letter sets out that we will not perform the duties of management in terms of making judgements or taking decisions.

In summary, in the light of the above safeguards, our assessment is that the above matters have been properly addressed in accordance with APB Ethical Standards and do not threaten our objectivity or independence.

### **Confirmation of audit independence**

We confirm that as of 10 June 2014, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Assurance Committee of Transport for London and should not be used for any other purposes.

For further details of specific independence requirements for Audit Commission appointments, see Appendix 1 overleaf.

Yours faithfully



Robert Brent

Partner, KPMG LLP

## **Appendix 1: Independence Requirements for Audit Commission Appointments**

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the Code) which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s Annual Letter of Guidance and Standing Guidance (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of Audit Matters with Those Charged with Governance’ that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence;
- The related safeguards in place; and
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other Non-Audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Integrated Governance Committee.

Ethical Standards require auditors to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of



Non-Audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.