

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL AUDIT FEE 2011/12

DATE: 2 MARCH 2011

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 2012. A letter from KPMG is attached at Appendix 1. 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 BACKGROUND

2.1 The proposed indicative fee for the audit of the Group and Corporation financial statements for the year ended 31 March 2012 is £301,000. This represents a reduction of £10,010 compared with that for the previous year.

2.2 There is also no increase for the impact of inflation, and efficiencies have been identified by KPMG and passed on to TfL.

2.3 KPMG has not proposed an increase in the audit fee for the Whole of Government Accounts submission.

2.4 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 in place for 2010/11, and the Audit Commission has now released guidance. KPMG is now planning the audit work required for the value for money conclusion for 2010/11, and it is therefore not possible to agree a fee for 2011/12 at this time.

3 RECOMMENDATION

3.1 The Committee is asked to NOTE the fee proposals.

4 CONTACT

4.1 Contact: Stephen Critchley, Chief Finance Officer
Number: 020 7126 4871
Email: StephenCritchley@tfl.gov.uk



KPMG LLP
Audit
15 Canada Square
London E14 5GL

Tel +44 (0) 20 7311 3232
Fax +44 (0) 161 246 4121

Mr Stephen Critchley
Chief Finance Officer
Transport for London
Windsor House
Victoria Street
London SW1H 0TL

Our ref TfL_140111

Contact Wayne Southwood

18 February 2011

Dear Stephen

Annual fee proposal 2011/12 – Transport for London (“TfL”)

We are writing to confirm the work and fee that we propose for the 2011/12 financial year for the audit of the TfL Corporation and Group financial statements, value for money conclusion and Whole of Government Accounts. Our proposal is based on a risk-based approach to audit planning as set out in the Audit Commission’s Code of Audit Practice and work mandated for 2011/12.

Audit fee

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

The total proposed fee for the financial statements audit for 2011/12, excluding the fee for the value for money conclusion, is £306,500 (plus VAT). This compares to the total planned fee of £316,510 for 2010/11. A summary of this is shown in the table below.

Audit area	Proposed fee 2011/12	Proposed fee 2010/11
Financial statements audit	£301,000	£311,010
Value for money conclusion	TBC	TBC
Whole of Government Accounts	£5,500	£5,500
Total audit fee	£306,500	£316,510

Financial statements audit

2011/12 will be the second year of preparing financial statements in accordance with International Financial Reporting Standards (‘IFRS’) as adopted by the Code. In recognition of this we have identified efficiencies of 3% which we have passed to TfL in the form of a fee reduction. We have also not applied an inflationary increase in response to the financial constraints you are facing.

The indicative fee is based on a number of 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 2011. This plan will detail the specific audit risks identified and planned audit procedures.

Value for money

The Audit Commission has now released guidance relating to the work to be undertaken in relation to reaching a value for money (‘vfm’) conclusion in 2010/11. The assessment will focus on the two thematic areas i) securing financial resilience and ii) prioritising resources in a financially strained economy. Full guidance has not been received on the work required to reach a vfm conclusion in 2011/12, however, it is anticipated that the assessment will focus on the same two themes. We will provide you with our fee estimate once we have completed our assessment and planning for this work.

Whole of Government Accounts

We will also review and report on your Whole of Government Accounts (‘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.

Conversion to International Financial Reporting Standards - Fee for the audit of the conversion of the opening balance sheets and comparative financial statements

We have proposed a fee of £280,000 for the audit of the IFRS conversion. The TfL and TTL conversion project involves converting every entity in the group to IFRS. The fee is in respect of:

- 1 the re-audit of the restated opening balance sheets for all entities and two consolidations at 31 March 2009, and
- 2 the re-audit of two consolidations, comparative balance sheets, income and cash flow statements and new disclosures for every entity as at and for the year ended 31 March 2010.

In summary, there are a total of 15 IFRS financial statements and consolidations at both the TfL and TFL levels (this excludes 3 dormant entities and 3 Tube Lines entities). Also, cash flow statements will be required for the first time in 13 entities.

Audit team

I will continue as your lead audit partner and your remaining senior team remains unchanged from last year and is set out below:

Name	Role	Contact details
Greg McIntosh	Director	greg.mcintosh@kpmg.co.uk 020 7311 6430
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) 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 2010/11;
- 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.

The fee for the audit of the financial statements will be re-visited when we complete our detailed audit planning.

Changes to the 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; or
- 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.

Planned output	Indicative date
Financial Statements audit plan	December 2011
Report to those charged with governance (ISA260 report)	June 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	July 2012
Annual audit letter	September 2012