

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL AUDIT FEE 2009/10

DATE: 29 SEPTEMBER 2009

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 2010, and also the assessment and inspection element of the Comprehensive Area Assessment Fee from the Audit Commission. Letters from KPMG and the Audit Commission are attached.

2 BACKGROUND

- 2.1 In previous years the proposed audit fee from KPMG has been presented to the Audit Committee as part of a joint Audit and Inspection Plan issued by the Audit Commission. This year, KPMG have issued a letter regarding the proposed audit fee for the financial statements audit and Use of Resources, and the Audit Commission have separately issued a letter regarding the assessment and inspection element of the Comprehensive Area Assessment Fee.
- 2.2 The proposed inspection fee from the Audit Commission is £19,956, compared with £36,200 for 2008/09. The reduction is due to the introduction of the Comprehensive Area Assessment framework, which provides for a more proportionate and risk based approach to inspection.
- 2.3 The proposed indicative fee for the audit of the Group and Corporation accounts, including Use of Resources, for the year ended 31 March 2010 is £383,500. This has been held at the same level as the base fee for the year ended 31 March 2009, and was broadly the same in each of the two previous years. In previous years, KPMG have been able to offset inflationary increases with a reduction in audit work through efficiencies in order to hold the fee level.
- 2.4 Within the overall audit fee, KPMG have proposed an increase in the fee for audit of the financial statements, and a decrease in the fee for the Use of Resources assessment. The proposed increase in the fee for audit of the financial statements relates to increased audit work in a number of areas. There is no inflationary increase within the proposal.
- 2.5 The major area of budgeted increase in hours relates to audit of the notes to the group accounts as time taken to audit the notes has increased in the past year due to the expansion of the number of companies in the group, and increased disclosure requirements in respect of financial assets and liabilities. Note disclosures will increase further for 2010 due to the adoption of IFRS for PFI transactions.

- 2.6 KPMG have not proposed an increase in the audit fee for the Whole of Government Accounts submission, although this is required to be IFRS compliant for 2010. They will be required to audit any estimated IFRS adjustments required for the WGA return, and the assumption is that this work will be carried out as part of the financial statement audit.
- 2.7 KPMG are also required by the Audit Commission to carry out one-off exercises from time to time. For example, in 2009 completion of a treasury management workbook was mandated, after preparation of audit budgets and fee proposals. Those costs were absorbed by KPMG and no additional audit fee was sought for this work.

3 RECOMMENDATION

- 3.1 The Audit Committee is asked to NOTE the fee proposals and make any comments as appropriate.

4 CONTACT

- 4.1 Contact: Stephen Critchley, Chief Finance Officer
Email: StephenCritchley@tfl.gov.uk
Phone: 020 71264871



KPMG LLP
Audit
One Canada Square
London
E14 5AG

Tel +44 (0) 207 311 6535
Fax +44 (0) 207 311 4121

Stephen Critchley
Chief Finance Officer
Transport for London
Windsor House
42-50 Victoria Street
London SW1H 0TL

Our ref 588/200509

30 June 2009

Dear Stephen

Annual audit fee 2009/10: Transport for London Corporation and Group

I am writing to confirm the audit work and fee that we propose for the 2009/10 financial year at Transport for London for the audit of the Corporation and Group financial statements. The Audit Commission now requires that we produce this letter style audit strategy, in place of the more detailed audit plans that have been produced at this time in previous years. Our proposal is 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 for 2009/10. Our proposal also includes audit work on the use of resources assessment which supports our annual conclusion on value for money and contributes to the Audit Commission's Comprehensive Area Assessment.

As I have not yet completed my audit for 2008/09, the audit planning process for 2009/10, including the risk assessment, will continue as the year progresses and our audit plan will be reviewed and updated as necessary.

The proposed indicative fee for the audit for 2009/10 is £383,500 (plus VAT), which is held at the same level as for 2008/09. I have proposed an increase in the fee for the financial statement audit to reflect the increasing complexity of the group accounts and expanding disclosure requirements, as well as additional audit procedures mandated by the Audit Commission, for example, on treasury management. I have also proposed a decrease in the fee for Use of Resources work as it is anticipated that process will be less cumbersome for 2009/10 - the second year of the new CAA framework. A summary is shown in the table below.

| Audit area | Indicative fee 2009/10 | Planned fee 2008/09 |
|--|------------------------|---------------------|
| Financial statements – Corporation and Group | £288,000 | £265,500 |
| Use of Resources | £90,000 | £112,500 |
| Whole of Government Accounts | £5,500 | £5,500 |
| Total audit fee | £383,500 | £383,500 |

The indicative fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. The proposed fee increase for the financial statement audit follows two years where we have been able to keep our fee in relation to the financial statements element of the audit stable, due to making a number of efficiencies in our audit approach. However, the scale and complexity of the Group has increased in the last year, disclosure requirements continue to increase and our ability to make further efficiency gains is now limited.

I have, however, proposed a corresponding decrease in the fee for Use of Resources work, as following the challenging and time-consuming process in the current year, the Audit Commission has indicated that this is expected to become a less burdensome process, both in terms of time input by TfL management in assessing TfL's performance and achievements, and in auditor's time required to form judgements on scores.

The above fee excludes any additional work we may agree to undertake at the request of Transport for London, for example, providing assistance with your preparations for IFRS convergence. We will also be required to assess the impact of changes in the accounting for PFI projects required by the 2009 SORP and we are not yet in a position to estimate the costs of this exercise. Any such piece of work will be separately discussed and a detailed project specification agreed with you in advance.

The indicative fee also does not include any additional work that may be required to address questions or objections raised by local government electors and it also does not include any work that you may require us to undertake on certifying grant claims. We will agree fees for these areas of work separately with you.

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

Our work on use of resources informs our value for money conclusion. 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.

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 key members of the audit team who will support me in carrying out the 2009/10 audit are:

| Name | Role | Contact details |
|---------------|----------------|---|
| Greg McIntosh | Director | greg.mcintosh@kpmg.co.uk 020 7311 6430 |
| Ross Tudor | Senior Manager | ross.tudor@kpmg.co.uk 020 7311 1542 |
| Marion Follis | Senior Manager | marion.follis@kpmg.co.uk 020 7311 6387 |
| Rebecca Pett | Manager | rebecca.pett@kpmg.co.uk 020 7311 6535 |

We are committed to providing you with a high quality service and appreciate the feedback which you provide us on how we can improve. 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

June Awty
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 2008/09;
- 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;
- prompt responses will be provided to draft reports; and

In particular, during the 2008/09 audit we discussed certain entities which became part of the TfL Group in 2008/09 where improvements in the accounts production process and adherence to Group reporting timetables are required in 2009/10. Where the above 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 for 2009/10 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;
- 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 |
|--|------------------------|
| Report to those charged with governance (ISA 260 report) | June 2010 |
| Auditor's report giving the opinion on the financial statements and value for money conclusion | July 2010 |
| Use of resources report | September 2010 |
| Annual audit letter | September 2010 |

Feedback on work carried out during the interim and final audits, and any recommendations for improvements raised, will be provided to the relevant business area and group finance team.

28 April 2009

Mr P Hendy
Commissioner
Transport for London
Windsor House
42-50 Victoria Street
London
SW1H ONL

Dear Mr Hendy

Assessment and Inspection element of Comprehensive Area Assessment Fee for 2009/10

Further to our discussions, I am writing to confirm the assessment and inspection work that we propose to undertake as part of CAA for the 2009/10 financial year at Transport for London. The fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission's inspection work, excluding any audit fees. Your appointed auditor will be writing to you separately on fees for audit work.

CAA will deliver a more proportionate and risk based approach to inspection, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The inspection plan will be reviewed and updated as necessary.

The total indicative fee for these elements of CAA for 2009/10 is £19,956 and is shown in the table below. The fee has been set in accordance with the Audit Commission's work programme and scales of fees 2009/10.

Assessment and inspection work plan and fee

| Assessment / inspection activity | Planned fee for 2009/10 |
|---|--------------------------------|
| Managing performance theme of organisational assessment | £19,956.00 |
| Total inspection fee | £19,956.00 |

If I need to make any significant amendments to the CAA plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The above fee excludes any additional work that Transport for London has requested and the Commission has agreed to undertake using its advice and assistance powers.

If you have any questions regarding this letter, please do contact me in the first instance. Alternatively you may wish to contact the London Head of Operations, Les Kidner

Yours sincerely

A handwritten signature in black ink that reads "Ken Davis". The signature is written in a cursive style with a long, sweeping flourish at the end.

Ken Davis
Comprehensive Area Assessment London Co-ordinator

cc Mr S Critchley – Chief Finance Officer
Ms J Awty - KPMG