

Transport for London

Minutes of the Audit and Assurance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Wednesday 11 October 2017

Members

| | |
|--------------------|------------|
| Anne McMeel | Chair |
| Dr Lynn Sloman | Vice Chair |
| Kay Carberry CBE | Member |
| Dr Mee Ling Ng OBE | Member |

Executive Committee

| | |
|---------------|-----------------|
| Howard Carter | General Counsel |
|---------------|-----------------|

Staff

| | |
|--------------------|---|
| Sarah Bradley | Group Financial Controller |
| Michael Bridgeland | Head of TfL Project Assurance |
| Dili Origbo | Head of Internal Audit |
| Shashi Verma | Chief Technology Officer and Director of Customer Experience (Minute Reference 50/07/17) |
| Clive Walker | Director of Internal Audit |

Also In Attendance

| | |
|-----------------|---|
| Karl Havers | Partner, Ernst & Young (EY) |
| Caroline Mulley | Executive Director, EY |
| Colin Porter | IIPAG Advisor (Minute Reference 53/07/17) |
| Sue Riley | Secretariat Officer |

The Chair paid tribute to Ian Nunn, Chief Finance Officer, who recently passed away suddenly.

Ian's energy and commitment made a major contribution to transforming TfL's approach to financial management and reporting. He was a significant loss to the organisation and was survived by his wife Catherine, daughter Olivia and son William. The Committee's thoughts were with them all and TfL was providing support and assistance to his family.

The Chair extended her thanks to Simon Kilonback and Sarah Bradley for stepping up at short notice to cover Ian's role in the meantime.

The Chair also welcomed the recently appointed Head of Internal Audit to her first meeting of the Committee.

46/10/17 Apologies for Absence

An apology for absence was received from Dr Nelson Ogunshakin OBE.

47/10/17 Declarations of Interest

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no interests that related specifically to items on the agenda.

48/10/17 Minutes of the Meeting Held on 13 July 2017

The minutes of the meeting held on 13 July 2017 were approved as a correct record and signed by the Chair.

49/10/17 Matters Arising and Actions List

Sarah Bradley provided an update on the action relating to the 'firefighter' user access (Reference 27/07/17). The introduction of new updated software had addressed many of the issues highlighted but work was continuing to reduce the number of staff being issued access. A further update would be provided to the next meeting.

[Action: Sarah Bradley]

The Chair noted that the reporting on Strategic Risk had been deferred to the 14 December 2017 meeting and stressed the need to make progress on this issue. Discussions at the scheduled Board Awayday would feed into the wider strategic risk register, with a formal report being submitted to a meeting of the Board on 9 November 2017. This would also be linked to the outcome of the Board Effectiveness Review and allocation of risk as part of the governance structure.

The Committee noted the Actions List.

50/10/17 Internal Audit Quarter 1 Report 2017/18

Clive Walker presented the report, which included a revised Integrated Assurance Plan for the last half of 2017/18

The format of the plan now distinguished between third line (Internal Audit) and second line assurance activity, with the latter included only in summarised form. Going forward, the Committee would no longer receive details of all second line audits but would continue to be informed about 'poorly controlled' reports and trends emerging from this work. They would still receive details of all Internal Audit reports issued.

The HSE and Technical audit report which had been issued as poorly controlled on Earth Structures, was discussed, and had also been considered at the Safety, Sustainability and Human Resources Panel meeting. Actions were not due to be completed until March 2018 and were being closely monitored by the Managing Director of London Underground.

It was confirmed that TfL responses to the Rail Accident Investigation Branch and Safety Management Consultancy reports in relation to the Croydon Tramlink incident would be reported through the Safety, Sustainability and Human Resources Panel and TfL Board.

The Integrated Assurance Plan for 2018/19 would be more closely mapped against the organisation's strategic risks.

Shashi Verma was in attendance to answer questions relating to seven management actions that were more than 60 days overdue, within his Directorate, six of which related to the audit of Software Licensing. Many of the licences purchased across the business did not fall within the remit of the Technology and Data Directorate, but were purchased directly by technical and engineering staff, which made monitoring a challenge. Much of this technical software was also opaque which further complicated the task. Efforts were being made to try to capture details of as many of the licences as possible.

The Committee was not content at the lack of progress on closing down these audit actions, many of which were significantly overdue. Internal Audit would meet with members of the Chief Technology Officer's team to review the outstanding actions and discuss how best to close them off, and report back to the next meeting.

[Action: Clive Walker/Shashi Verma]

The Committee noted the report and approved the revised Integrated Assurance Plan for the remainder of 2017/18.

51/10/17 Effectiveness Review of the External Auditors

Sarah Bradley introduced the paper on the annual review of the effectiveness of the external auditors. Karl Havers and Caroline Mulley left the room for the duration of the discussion of this item.

Overall, the scores showed that there had been a significant improvement in the performance of EY compared to the previous year. This could be further enhanced by the input of senior EY staff at an earlier stage in some of the processes and more regular feedback between the external auditors with their own senior staff as well as more regular discussions between senior EY staff and TfL officers.

Committee Members had also been consulted for the first time as part of the review process and Members had generally found EY helpful and clear in the information they provided.

Comparing EY to previous providers, their use of analytical data was considered insightful and the areas they flagged for action were proportionate and helpful.

TfL staff had also mentioned named EY individuals during the feedback consultation as being particularly helpful, and this would be fed back to the relevant staff.

EY returned to the room and the Chair summarised the generally positive feedback and suggestions for improvement.

The Committee noted the paper and the supplemental information on Part 2 of the agenda.

52/10/17 Appointment of External Auditors

Sarah Bradley introduced the paper updating the Committee on the appointment of external auditors for TfL and its subsidiaries.

Karl Havers and Caroline Mulley left the room following a general introduction on this item.

Sarah Bradley outlined the bidding process for the appointment of external auditors to TfL and TTL Trading Limited, which were two discreet processes. A number of external audit firms were excluded from bidding due to their conflicted status in already carrying out work on behalf of TfL. The Directors of the various TTL Boards would formally appoint the external auditors at the appropriate meetings.

The bidding process had secured a further reduction in the fee for the TTL audit on top of reductions in earlier years.

Over the five year term, the cost of the contract could increase slightly in line with inflation but also decrease through efficiencies. The overall cost of external auditors had significantly reduced in recent years.

The Committee noted the proposal from Public Sector Audit Appointments Limited to appoint Ernst and Young LLP (EY) as auditor of TfL for a period of five years, commencing with the audit of the 2018/19 financial year and noted the recommendation to appoint EY LLP as auditor of Transport Trading Limited and certain subsidiaries for the same period.

53/10/17 Independent Investment Programme Advisory Group (IIPAG) – Review Implementation

Michael Bridgeland introduced the paper setting out the proposed action plan to implement the recommendations from the recent review of IIPAG. Colin Porter, IIPAG member, was also present for this item.

It was agreed that a further update would be submitted to the next meeting on the recruitment strategy, including diversity issues, and an update on the implementation of the Action Plan would be a standing item. **[Action: Michael Bridgeland]**

It was confirmed that the revised Terms of Reference would be submitted to the Committee and the Board for comment.

The Committee noted and approved the action plan.

54/10/17 Register of Gifts and Hospitality for Members and Senior Staff

Howard Carter presented the regular report of the gifts and hospitality declared by the Board and senior staff for the period from 1 June to 31 August 2017. The report format had been updated as requested by Members.

Further clarification would be sought from the Managing Director, London Underground and the London Transport Museum Director on some of their entries, and the outcome would be confirmed with Members of the Committee. **[Action: Howard Carter]**

It was agreed that further details as to the reason for attending events would be included in future reports. **[Action: Howard Carter]**

The Committee noted the paper.

55/10/17 External Audit Plan TfL, TTL and Subsidiaries – Year Ending 31 March 2018

Karl Havers presented EY's Plan for the audit of the financial statements of TfL, TTL and its subsidiaries for the year ending 31 March 2018.

EY highlighted the risk of the current Transformation programme to TfL's service delivery, including the impact on the finance function in terms of staffing and resourcing. A recruitment process was in place to address this issue.

The Committee noted the paper.

56/10/17 EY Report on Non-Audit Fees for Six Months Ended 30 September 2017

Karl Havers and Caroline Mulley introduced the report on fees billed by EY for non-audit services.

There had been no non-audit fees during the period of 1 April to 30 September 2017.

The Committee noted the paper.

57/10/17 Annual Audit Letter

Karl Havers and Caroline Mulley introduced the letter prepared by EY, summarising their conclusions on the Annual Statement of Accounts and Value for Money.

EY had issued unqualified opinions on the TfL financial statements, including the value for money conclusion, and on the Whole of Government Accounts return, certified on 22 September 2017 and this has now been submitted to HM Treasury.

The Committee noted the letter.

58/10/17 Members' Suggestions for Future Discussion Items

Howard Carter presented the current forward programme for the Committee. It was agreed that the following items be added to the work programme:

- (a) informal presentation on EY's analytical work be presented after the next meeting;
and
- (b) a report on key issues/trends for monitoring TfL's effectiveness as an organisation to be submitted to the next meeting.

The Committee noted the forward programme as amended.

59/10/17 Date of Next Meeting

The next meeting would be held on Thursday 14 December 2017 at 10.00am

Exclusion of Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the exempt information in relation to the item on Effectiveness Review of External Auditors.

The meeting closed at 12pm.

Chair: _____

Date: _____