

Date: 18 July 2013

Item 5: Savings and Efficiencies Programme Review

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to outline the findings of a review by PricewaterhouseCoopers (PwC) of the Savings and Efficiencies Programme, which was commissioned in May 2013.

2 Recommendation

2.1 **The Committee is asked to note this paper.**

3 Background

3.1 The Savings and Efficiencies programme was launched in 2009/10. At that time, the programme had a target timeline that ran from 2009/10 through to 2017/18, which in 2012/13 was extended to 2021/22.

3.2 In October 2011, TfL engaged Deloitte to undertake a 'Fresh Eyes Review' on the deliverability and overall status of the full TfL Savings and Efficiencies programme. The findings were considered by the Committee on 19 January 2012.

3.3 In May 2013, TfL commissioned PwC to undertake a review of the governance, controls and processes associated with the efficiencies programme. This was augmented by the systematic verification of 12 significant stand-alone initiatives reported within the portfolio.

4 Savings and Efficiencies Review Key Findings

4.1 PwC's Savings and Efficiencies Programme Review confirms the overall effective management and robust reporting of the Programme. The total Programme controls were RAG (Red, Amber, Green) rated and all were assessed as either green or green/amber. In addition, for the 12 initiatives that were assessed in detail, the average RAG scoring for the two categories of 'controls' and 'substantive testing' were all green or green/amber.

4.2 A number of examples of positive governance, controls and processes were cited. The review indicates that significant advances had been made in the period between the Deloitte and PwC reviews. The review also included a number of recommendations for further improvements to the Programme's governance, controls and processes.

The key areas of focus within the report

- 4.3 A number of examples of good governance were noted. These included the quarterly review of the Efficiencies programme by TfL Chief Officers at an operational and strategic level; clear guidance including roles and responsibilities; and, for significant stand-alone initiatives, comprehensive programme plans.
- 4.4 Widespread evidence of controls in action was noted. In relation to the stand alone initiatives reviewed, this included the 'causal trackers'. These are schedules used to reconcile the Efficiencies programme to the finance system. In addition, PwC noted that for a number of initiatives, contracts to achieve savings were already in place for the duration of the Programme. The review suggested this process could be augmented by implementing a more formal and detailed documentation and evidencing control.
- 4.5 The review noted that the Programme risk was a key part of the quarterly strategic review process. The review indicated that the continuation of the risk focused reviews conducted by TfL's Chief Officers would, in conjunction with Business Areas reviews, provide the right level of scrutiny to ensure the deliverability of the Programme.
- 4.6 The review also noted that the complexity of the programme, both in terms of size and the period of time over which the savings were tracked, had resulted in some ambiguity within internal reporting. The decision to re-baseline efficiencies reporting as part of the 2012/13 Business Planning process, and to separate secondary revenue reporting while reporting externally on the former all inclusive basis, was cited as an example of this.
- 4.7 The review also commented that the time period of the Programme was very long, 2009/10 through to 2021/22. The Programme target is adjusted to reflect the inclusion of new initiatives on an annual basis. The review noted that there was not a mechanism to segment the reporting of efficiencies identified within time-specific junctures within the current reporting process.

5 Next Steps

- 5.1 In order to generate a detailed action plan, a number of pan-TfL workshops will be held over the coming weeks. These sessions will focus on the areas for further consideration highlighted in the report. The proposals will be assessed to ensure they are practicable and are congruent with the current resources available.
- 5.2 The five key proposals that will be evaluated are:
- (a) the introduction of a formal and more detailed documentation and evidencing process;
 - (b) the implementation of an Information Management systems tool to support the data capture, monitoring and reporting of the Programme;
 - (c) the introduction and application of a singular TfL efficiencies calculation methodology;

(d) the introduction of a standardised TfL-wide system to support data retention;
and

(e) greater inter Business Area collaboration, including the further standardisation
of all efficiencies programme related processes.

List of appendices to this report:

Appendix 1 – PwC's Savings and Efficiencies Programme Review

List of Background Papers:

None.

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Transport for London Savings and Efficiency Programme

*Review of governance, processes and controls and testing of
programme initiatives*

June 2013

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1 Introduction

1.1 Background

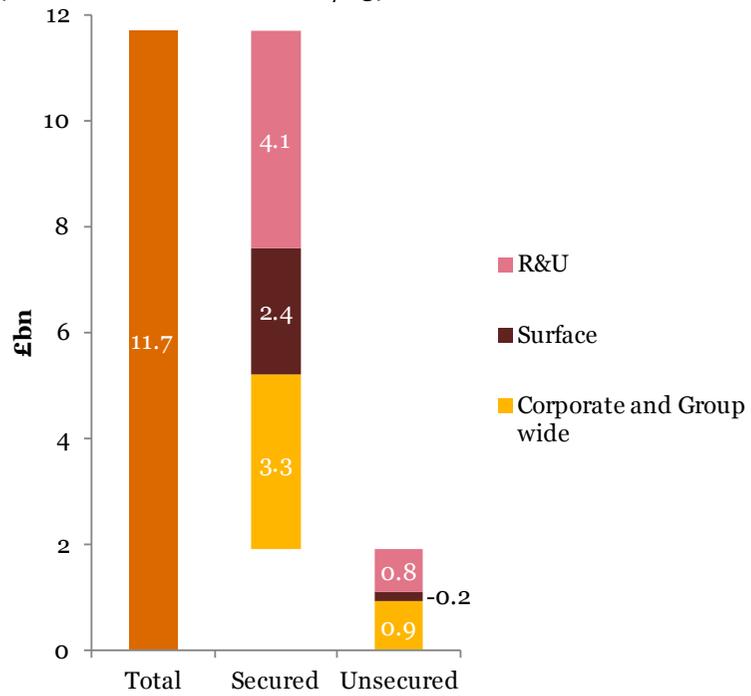
TfL has committed to delivering savings of £11.7 billion by 2017/18 (starting in 2009/10). These savings are being delivered through the Savings and Efficiencies (S&E) Programme ('the Programme'). The programme comprises a number of initiatives that are managed by TfL's three business units (Corporate, Surface Transport and Rail & Underground). Financial and risk data for each of the Programme initiatives is captured in bespoke databases by each business unit's Finance Department and reported to the Programme team on a quarterly basis. Ultimately the Programme is monitored by TfL's Value Group and Finance Leadership Team through quarterly 'Value Group Efficiencies Programme Update' reports that set out the consolidated position across TfL.

The following anticipated level of secured and unsecured savings has been extracted from TfL's 2012/13 Business Plan (2017/18) and from the position reported in the 2012/13 Quarter 4 'Value Group Efficiencies Programme Update' (2021/22):

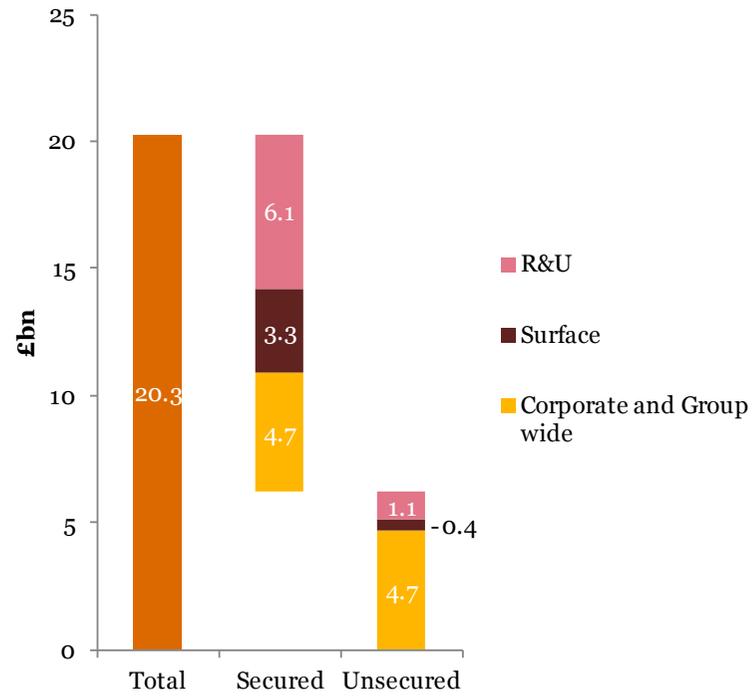
| £bn | 2017/18 | 2021/22 |
|------------------------|----------------|----------------|
| Secured | 9.8 | 14.0 |
| Unsecured | 1.9 | 6.3 |
| Total Programme | 11.7 | 20.3 |

The 2012/13 Business Plan included a mixture of gross and net (of the cost of achieving the saving) numbers. Neither the original business plan nor the position reported in the Q4 report includes Tube Lines. The diagrams on the following page show these figures broken down by secured and unsecured and by the business unit to provide a more complete view of the S&E programme landscape.

Savings to 2017/18
(from Business Plan 2012/13)



Savings to 2021/22
(from 2012/13 Q4 update)



1.2 Our review

Overview

There is no guarantee of successfully realising savings and efficiencies of the nature of those within the Programme. However, in our experience, the existence and effective operation of a proportionate and overarching governance and control framework enhances the likelihood of success of a major programme of this nature. The key things we consider to evidence this are:

- Engaged stakeholders
- Clear scope
- Managed risks and opportunities
- Delivery-enabling plans
- Focussed benefit management
- High-performing teams
- Active quality management
- Embedded life-cycle assurance and learning
- Agile change control
- Strong governance and reporting

TfL commissioned PwC to perform a review of the Programme. A summary of the work requested is as follows:

- For each of TfL's three business units, a review of the governance, processes and controls in place over initial calculation for the business case, monitoring and reporting of the Programme's reported savings from 2009/10 to 2021/22.
- Identification and testing (on a sample basis) of key controls in place over the monitoring and reporting of savings.
- Further scrutiny over a sample of twelve initiatives (approximately six major savings and efficiencies initiatives and six individual projects) - for each of the twelve initiatives selected:
 - A trace of the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the quarter 4, 2012/13, 'Value Group Efficiencies Programme Update' report.
 - Agreement of the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving.
 - Recalculation of the underlying calculation of the saving to check accuracy.
 - Agreement of all elements making up the calculation of the saving to documentary evidence (for example contracts, restructuring programmes, HR records).
 - Rating any risks to appropriate controls operating over these savings and efficiencies initiatives against the criteria of governance, stakeholders and financial assumptions.
 - Providing commentary on the effectiveness of the controls, including any recommendations for potential improvements.

The full scope of our work as reported on in this report is provided in Appendix 2 – Scope of work.

Sample for testing

We tested the following twelve savings and efficiency initiatives both within TfL's three business units (Corporate, Surface Transport and Rail & Underground) and those initiatives that cut across TfL:

| No. | Project | Total saving to 2017/18 (per Q4 report) | Total saving to 2021/22 (per Q4 report) | DIO rating ¹ |
|----------------------------------|---|---|---|-------------------------|
| Surface Transport | | | | |
| 1 | Bus Network - Tender contract prices | £353m | £466m | D1, D2 |
| 2 | Surface transport wide - Headcount FTE reductions and payroll savings (traffic) | £24m | £40m | D1 |
| 3 | Traffic Control Maintenance and Related Services – 2 (TCMS2) | £8m | £15m | I1 |
| Corporate | | | | |
| 4 | Finance – Accommodation Strategy | £145m | £269m | D1, I1, O1 |
| 5 | Operations – reduce cost of oyster cards through direct procurement | £14m | £27m | D2 |
| Rail & Underground | | | | |
| 6 | Asset performance (APD) | £987m | £1,656m | D1,D2, I1, O1 |
| 7 | ATMS | £18m ² | £38m | I1 |
| 8 | CPD – track contracts | £176m | £176m | D1, I1 |
| 9 | Lifts and Escalators | £27m | £36m | D1,D2 |
| 10 | Customer Services Transformation Programme (CSTP) | £150m | £334m | O1 |
| Cross-cutting initiatives | | | | |
| 11 | Horizon | £359m | £609m | D1,D2, I1, I2, O1 |
| 12 | Operating Cost Review (OCR) | £237m | £376m | D1 |
| Total | | £2,480m | £4,004m | |

¹ The Programme uses a DIO (Delivered, Identified, Overlay) rating of initiatives where 'D1' is an initiative for which benefits have been realised from completed activity, 'D2' is highly likely to be delivered, but elements of residual risk remain, 'I1' is where implementation plans exist/started, but risks/uncertainty remain, 'I2' is where an initiative is identified but implementation has not yet been fully assessed, 'O1' is a business unit commitment to make efficiencies, but an initiative has not been identified, and 'O2' is a commitment to make the efficiency, but it has not yet allocated to a business unit.

² ATMS is a sub-project within the wider APD savings initiative which was selected for more detailed testing. As such, the total saving for APD only has been included in the total value of initiatives tested.

1.3 Key findings

Our detailed findings are set out in sections two and three of this report. We have summarised our key findings below.

Positive indicators:

- **Governance arrangements**

We noted a number of examples of good governance over the Programme, including:

- Quarterly review of the Programme at the Value Group and Finance Leadership Team meeting. Within Surface Transport, the Surface Board has, from 2012/13, also met quarterly to review savings and efficiency initiatives specific to Surface in detail (chaired by Surface Transport's Managing Director)
- There is clear guidance for savings and efficiency processes and controls, TfL wide and within the three business units. In particular, logical and easily understandable flow charts which clearly set out processes, roles and responsibilities and key controls in the process are in place within Surface Transport and Rail & Underground.
- For significant programmes, such as the Rail & Underground Asset Performance Directorate's (APD) programme to generate savings through improvements in maintenance arrangements, which is due to generate £1.65 billion of savings between 2009/10 and 2021/22, a programme plan with key gates for approval has been put in place to manage the Programme through to completion.

- **Evidence of controls**

We noted widespread evidence of controls in action over aspects of the savings and efficiency initiatives in all of the twelve initiatives tested, (for example, email trails which evidenced recent review of forecast and outturn savings, 'causal trackers' used to reconcile movements in savings and initiative outturns reported in the 'Value Group Efficiencies Programme Update' to movements in SAP).

- **Evidence to support savings**

Within the savings and efficiency initiatives tested, we noted a number of initiatives where the contracts to achieve savings are in place for the duration of the Programme. For example:

- Operations – reduce cost of oyster cards through direct procurement (forecast saving to 2021/22: £27 million)[initiative 5 of the 12 tested, as listed in the table on page8]
- Lifts and Escalators (forecast saving to 2021/22: £36 million) [initiative 8 of 12]
- CPD – track contracts (forecast saving to 2021/22: £176 million) [initiative 9 of 12]

Areas for further consideration:

- **Re-baselining reported savings**

The complexities of reporting the Programme over a significant period of time (initially 2007/08 – 2017/18 and subsequently extended to 2021/22 under the 2012/13 business planning round) has resulted in ambiguity within internal TfL reporting over the magnitude of the savings target over this period, which areas of TfL are included and excluded, and the basis of reporting savings and efficiency initiatives (gross and net). Reclassifications of initiatives to be included and excluded from the Programme (for example, ‘secondary revenue’, additional revenue generated by TfL, was initially included in the Programme but has subsequently been excluded, Tube Lines is to be included from 2013/14) have also contributed to this ambiguity. Existing management of the Programme’s reporting process does not easily allow the flexibility to clearly report these changing targets and outcomes as the Programme evolves. This reduces the clarity in reporting the total value of the savings and efficiency initiatives and potentially increases inefficiency in the process of reporting which requires reconciliation to previously different methodologies for reporting.

Good practice would see savings and efficiency programmes monitored over a three to five year control period. Therefore, we recommend considering re-baselining the Programme’s savings targets to zero (i.e. savings banked to date identified to enable focus solely on savings to be delivered from 2013/14) periodically. At the end of each period, target saving and actual outturn should be reviewed and formally signed off at the appropriate level in TfL. This would facilitate monitoring and reporting of the Programme and give clarity over the target efficiency savings.

We also recommend segmenting reporting of the Programme (for example, into categories such as ‘commodity purchase’ and ‘major service outsource’) which would give a clearer indication of the initiatives that make up the programme, to highlight common themes, to show the larger initiatives in context, and to support challenges back to the business units.

- **Basis of reporting**

The Programme was put in place to identify savings which would support TfL to reduce inefficiencies and invest savings into new activities. Where efficiencies are identified on TfL initiatives which started subsequent to 2009/10, these would be reported as a saving through the Programme. Under the current regime, over time it becomes increasingly complicated to report savings. An alternative approach would be periodically to capture and bank the benefits, and then re-baseline and monitor subsequent forward-looking targets.

We recommend reporting of the Programme should clearly highlight savings made both against the original and subsequent targets and those also subsequently identified (for example, both on projects that existed at the time the original target was set and on projects which started following setting the original target). Re-baselining the Programme’s savings targets to zero periodically would facilitate reporting of savings in this way.

- **Formal documented evidence of controls**

Whilst there is widespread evidence of controls in place over S&E initiatives, there is limited comprehensive formal documented evidence of key controls in operation over the Programme’s lifetime and controls are seldom formally reviewed. This issue is exacerbated by the lack of a standard system to maintain key records relating to the Programme. These key controls should include initial calculations of the savings to be achieved, classification of a TfL

business process and a savings and efficiency initiative to be reported (and subsequent erosion of a previously identified savings and efficiency initiative) and reconciliation of actual savings through to SAP general ledger.

We recommend that management considers identifying, documenting, mandating and retaining evidence of those controls deemed to be key to the S&E process, in particular over those initiatives which are of significant value and those deemed high risk of not delivering forecast savings.

- **Risks to achieving savings**

Within the savings and efficiency initiatives tested, we noted a limited number of risks to achieving the savings. For example:

- The aim of the CSTP initiative (forecast saving to 2021/22: £334 million) is to make savings whilst improving the station experience for customers. Detailed plans of how savings will be achieved are not mature though savings are due to take effect from November 2014. There is a risk of achieving savings on this scale in this timeframe given the lack of maturity of the detailed plans at this stage. Our testing also identified some weaknesses in the governance framework for this programme (for example, formal documented evidence of controls including approval of the forecast saving) which if further strengthened would give greater likelihood of achieving the intended outcome.
- For CSTP and the Operating Cost Review (OCR forecast saving to 2021/22: £376 million) the calculations of the saving include an inflationary uplift of between 2.9% and 4%. Consumer Price Index inflation per ONS was 2.8% in February 2013 and 2.7% for the previous five months. There is a risk that, over the longer term, forecast savings will not be achieved as actual inflation is lower than predicted inflation.

We note that the dashboard reporting introduced at the 2013 Value Group clearly highlights initiatives at higher risk of not delivering forecast savings. We consider that continuing to report in this way will support TfL to subject such initiatives to additional scrutiny at business unit level (in the first instance) to enable changes to be made to the Programme to ensure delivery of the full target saving by 2021/22.

Disclaimers

This report has been prepared solely for the purpose and use of TfL. PwC will not accept or assume any liability or duty of care to any other party to whom these reports are released or into whose hands they may come. PwC understands TfL may wish to disclose the reports to the London Assembly and/or the Greater London Authority (GLA), and whilst PwC consents to this, as the reports were not prepared for these bodies and their subsequent usage is unknown to PwC, TfL should advise these bodies that PwC will not accept or assume any liability or duty of care to these bodies. The work performed by PwC will not be completed for the purposes of these bodies. If these bodies rely on PwC's work they do so at their own risk.

Our work does not constitute an audit and as such no assurance is expressed in this report. Had we performed additional procedures, an audit or review, other matters might have come to light that would have been reported. Our report is solely for the use of TfL.

2 Summary findings from review of TfL's governance, processes and controls

2.1 Introduction

Each of TfL's three business units run a similar process for the logging, updating, monitoring and reporting savings and efficiencies as part of the Programme. Whilst the systems, processes and controls are broadly similar across the three business units, we identified some business unit specific approaches.

In the context of savings programmes, we would expect the following key controls:

- All initiatives to be subject to a initial high level Business Case which considers the key risks, issues and costs associated with achieving a proposed saving, along with the benefits to the organisation in implementing the saving.
- Evidence of where the Business Case had been approved by appropriate officers.
- For more complex, high value and / or high risk savings projects we would expect to see evidence of the business case being used as a 'living document' i.e. being regularly reviewed and updated with the latest information and assessed to ensure that the savings project remains viable.
- Ongoing review of the actual savings achieved against Business Case and evidence of action taken to address any under achievement against planned savings.
- Final review and sign off of the Business Plan following implementation of the saving.

We have considered the Programme in the context of this good practice framework.

Again, we have considered this good practice approach in the context of the Programme. The diagram on the following page sets out the systems, processes and controls in place over the Programme which we consider to be key to its running.

Central and service area specific guidance in place for recording, monitoring and reporting savings and efficiencies programme

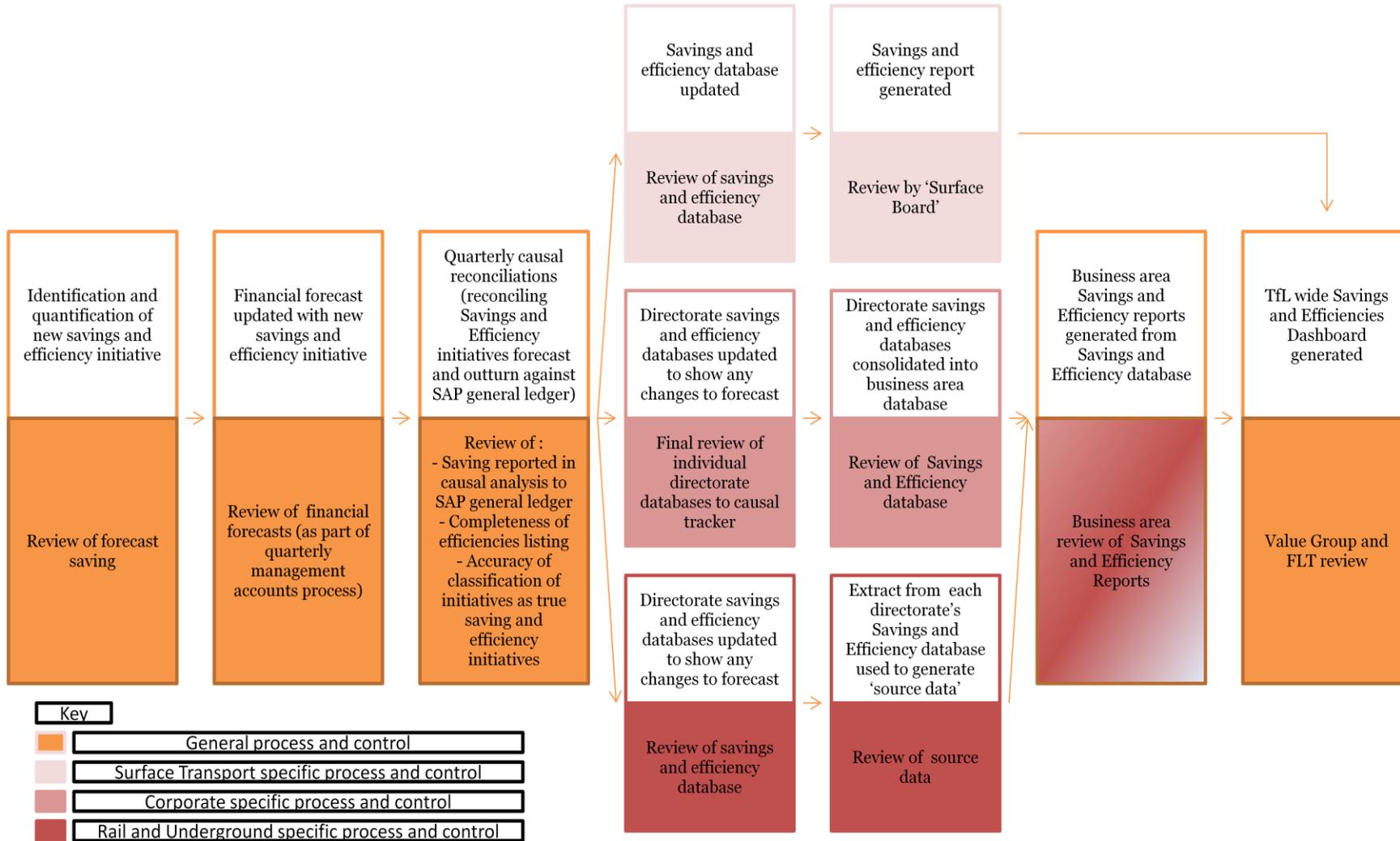


Figure 1: Key processes and controls for recording, monitoring and reporting Savings and Efficiency programme initiatives

In each business unit, the S&E database(s), held on excel, is the key tool used to record details of the Programme initiatives and to generate S&E reports. This database is run outside of but alongside TfL's quarterly financial management reporting of total outturn against budget for the year to date which is run from data held in SAP general ledger. SAP is used to capture and support all of TfL's financial transactions and reporting. Those activities subsequently categorised as an efficiency in each business unit's variance analysis tracker are also reflected in the S&E database. On at least a quarterly basis, the movements in the S&E database are reconciled to and aligned with movements in data held on SAP.

2.2 Positive indicators

Through our work we identified the following areas of good practice:

1. Savings and efficiencies are reviewed on a quarterly basis at TfL wide level as part of the quarterly Value Group and Finance Leadership Team meetings (both chaired by the MD Finance and attended by TfL's chief officers). We have been told (although it was excluded from the scope of this review to confirm) that this forum feeds back to business units where they are required to identify new savings and efficiency initiatives where savings targets are not being met on existing initiatives.
2. Within the Surface Transport business unit, the Surface Board has, from 2012/13, also met quarterly to review savings and efficiency initiatives specific to Surface in detail, including approval of forecast savings and scrutiny of outturn.
3. Guidance for savings and efficiency processes and controls is in place both at TfL wide level and within the three business units. In the case of Surface Transport and Rail & Underground, this guidance is set out in a logical and easily understandable flow chart which clearly sets out processes, roles and responsibilities and key controls in the process.
4. For significant programmes, such as the Rail & Underground Asset Performance Directorate's (APD) programme to generate savings through improvements in maintenance arrangements, which is due to generate £1.65 billion of savings between 2009/10 and 2021/22, a programme plan with key gates for approval has been put in place to manage the Programme through to completion.
5. In our testing of twelve savings and efficiency initiatives, we noted evidence of controls in action over aspects of the savings and efficiency initiatives in all cases (for example, email trails which evidenced recent review of forecast and outturn savings, 'causal trackers' used to reconcile movements in savings and efficiency initiative outturns reported in the 'Value Group Efficiencies Programme Update' to movements in SAP), though these were not always documented and formally evidenced.
6. In Surface Transport, we found evidence of the use of change logs to track changes to savings and efficiency initiatives over time. This supported the audit trail to trace reported initiatives back to underlying calculations of the original saving. A change log such as this is considered good practice, particularly for more complex savings and efficiency initiatives which are taking place over a significant period of time.
7. For one of the initiatives we tested, Accommodation Strategy, we noted a refresh of the assumptions used to generate the forecast saving which took place in July 2012 and was used to update the 2012/13 quarter 2 forecasts. Given the long term nature of the Programme, a periodic review of key assumptions underpinning major programmes is deemed to be good practice.

2.3 Areas for further consideration

We have set out below our summary findings and recommendations over the effectiveness of overarching governance structures, processes and controls in place across TfL over the quantification, monitoring and reporting of savings and efficiencies initiatives. We have set out our detailed findings from testing of controls over the twelve initiatives selected (see section 1.2) in Appendix 1.

| Finding | Implication | Recommendation | RAG Rating ³ |
|--|--|--|---|
| <p>1. Lack of formal evidence of key controls</p> <p>We identified formal controls for the initial review and approval of savings for five of the twelve initiatives tested.</p> <p>However, for all business units, there is incomplete formal evidence for key controls over the Savings and Efficiency programme.</p> <p>Varying kinds of evidence could be provided for most controls over the projects selected in our sample for testing. For example:</p> <ul style="list-style-type: none"> • Email trails which evidenced recent review of forecast and outturn savings • ‘Causal trackers’ used to reconcile movements in savings and efficiency outturns reported in the ‘Value Group Efficiencies Programme Update’ to movements in SAP • Change logs within Surface Transport which were used to track changes to savings and efficiency initiatives over time <p>However, formal evidence of operation and review of key controls could only be identified for one of the twelve projects (APD).</p> | <p>Without comprehensive formal evidence of documentation and sign off, there is limited ability for both management and audit purposes to provide assurance that key controls are taking place.</p> <p>Particularly given the relatively long timeframe for this Programme, there is a risk that in future years of the Programme it is not possible to obtain assurance that key processes over each saving and efficiency initiative were adhered to.</p> <p>Without the requirement for formal evidence of the control, there is a risk that individuals do not fully carry out their responsibilities with respect to the savings and efficiency programme (though we note that review at Value Group and FLT level goes some way to mitigating this risk).</p> | <p>We recommend that management identify, document and mandate those controls deemed to be key to the S&E process, for example:</p> <ul style="list-style-type: none"> • Approval of the original initiative; • Approval of material amendments to the original initiative; • Review of the categorisation of ‘business as usual’ programmes as ‘Savings and Efficiency initiatives’ or erosion of previous efficiency programmes; • Reconciliation of savings and efficiency initiatives to SAP; and • Formal business unit sign off of the Programme reporting before submitted for inclusion in the dashboards that underpin TfL’s quarterly Value Group Efficiencies Programme Update. <p>For these key controls, we recommend formal evidence that the control is maintained (for example, by included ‘reviewed by’ and ‘date’ fields to the S&E database which enables</p> | <p style="text-align: center;">  Amber </p> |

³ See RAG rating definitions on Page 24. The RAG rating reflects the risk rating for controls operating over savings and efficiency initiatives and the risk rating for evidence to support substantive tests, based on the specific tests we undertook.

| Finding | Implication | Recommendation | RAG Rating ³ |
|--|---|---|--|
| <p>2. Maintenance of S&E database for reporting</p> <p>Each of TfL's three business units use excel as the 'S&E database', to record details of the Programme initiatives and to generate S&E reports (detailing savings from 2009/10 up to 2021/22). This database is run outside of but alongside TfL's quarterly financial management reporting of total outturn against budget for the year to date which is run from data held in SAP general ledger.</p> <p>Whilst anecdotal evidence is available of the reconciliation of the S&E database to SAP general ledger, formal evidence of this control is not maintained.</p> <p>S&E reported outside of the standard business reporting process using 'S&E database'. In itself, this is not an efficient process given maintenance of two systems, reporting back to 2007/08 and up to 2017/18 then 2021/22.</p> | <p>There is a risk that financial outturns are not consistently reported between TfL's financial management reporting and the S&E reporting. This is both due to inherent risks of manipulating financial data in excel (which has more limited in built control functionality than a general ledger system) and the lack of evidence of a formal reconciliation between the two systems.</p> <p>Furthermore, maintaining a separate external record of the Programme outside of SAP and ensuring this continually aligns to reporting in SAP is an inefficient process in itself. The complexity of generating these reports appears to be worsened given the time period over which the Programme is being monitored (i.e. back to 2009/10 and up to both 2017/18 and 2021/22).</p> | <p>electronic sign off of the controls).</p> <p>We recommend that TfL explores options to use the SAP general ledger system to support monitoring and reporting of the Programme reporting, replacing the existing excel database approach.</p> <p>As a minimum, under current arrangements we recommend that TfL formally evidence reconciliation of the S&E database to SAP on a quarterly basis.</p> | <p> Amber/Green</p> |
| <p>3. Non-standard databases and calculation of savings</p> <p>In our testing of twelve initiatives we were able to trace back the reported saving to underlying calculations in all cases (with some minor differences – see findings in section 3.2 of this report).</p> <p>However, there is limited standardisation in the spreadsheets used across TfL's three business units for both the S&E database and the underlying spreadsheets used to calculate the</p> | <p>Non standard methodologies create risk that savings and efficiencies are not appropriately calculated and reported. Furthermore, this also makes for a less efficient process.</p> <p>There is also a risk that, over the fifteen year life of the Programme, key personnel involved with calculating savings could leave the organisation and leave TfL management unable to satisfy themselves over the origin of</p> | <p>We recommend that the S&E database used in each business unit and underlying savings calculations are standardised across TfL. For the calculations, we suggest that one tool is developed and used to calculate all savings and that this include, as a minimum:</p> <ul style="list-style-type: none"> - Short description of the saving - Standard methodology to generate a saving resulting from contract negotiation and headcount reduction (with an option to include an 'other' saving) | <p> Amber/Green</p> |

| Finding | Implication | Recommendation | RAG Rating ³ |
|--|---|--|--|
| <p>efficiency saving. Therefore, a different approach was required in all cases to trace reported savings back to underlying calculations of the saving. This required support from the relevant management accountant to trace through the reporting. The process was not straightforward in all cases but was most complex for Rail & Underground, primarily given the maintenance of S&E databases for each directorate which meant an additional level of reporting to trace through.</p> | <p>reported forecast savings in future years.</p> | <ul style="list-style-type: none"> - Lead contact - Review by / date reviewed fields <p>We also recommend formal sign off of calculated savings prior to their being included in TfL's forecasts.</p> | |
| <p>4. Lack of 'corporate memory'</p> <p>For one of the twelve initiatives we tested (CPD – Track Contracts), we were unable to obtain source documentation to evidence the assumptions within the calculated saving. Evidence in a further six cases was limited.</p> <p>Obtaining evidence for the initiatives was in large part dependent on the availability of the individual responsible for the initiative in the first instance. These individuals were not available in all cases. There is no standard system in place to maintain records of the Programme.</p> | <p>Without a standard system for maintaining records of individual S&E initiatives there is a risk that, in future years, there is a loss of understanding within the organisation of how the saving was due to be realised.</p> <p>At its most extreme level, this could hinder the ability of TfL to generate planned savings. It also limits TfL's accountability for reporting savings.</p> | <p>TfL should investigate options to use existing data retention functions to maintain records of the Programme (for example, 'Sharepoint' or shared drives). A standard system for recording evidence of savings should be put in place, as a minimum for all future initiatives. Evidence for existing initiatives should be added to this system as far as possible.</p> <p>As a minimum, we recommend formally maintaining records of the following:</p> <ul style="list-style-type: none"> • Original calculation of the saving • Business case • Source documentation supporting assumptions (for example, contracts, average salary reports, headcount savings reports, evidence of conversations with HR / payroll) • Risk rating for delivery of the forecast saving • Updated calculations supporting material changes in forecast savings. | <p style="text-align: center;"> Amber</p> |
| <p>5. Non-standard processes across TfL</p> <p>Across the three business units within TfL the overarching process for calculating, maintaining and reporting the Programme is broadly the same</p> | <p>There is an opportunity across TfL to consider savings and efficiency initiatives across the organisation and focus resource on monitoring those programmes which are most</p> | <p>We recommend that TfL introduces standardisation across the organisation, as set out above, which will in part address this finding.</p> | <p style="text-align: center;"> Amber/Green</p> |

| Finding | Implication | Recommendation | RAG Rating ³ |
|---|---|---|-------------------------|
| <p>(see figures in section 2.1).</p> <p>However, from our testing of twelve savings and efficiency initiatives, it is apparent that the level of activity at each key stage of the projects varies across TfL's three business units, with most activity in Rail & Underground and least on more routine projects within Corporate. For example, for capital projects, Rail & Underground has an 'efficiencies' group which scrutinises proposed savings. This differs from the scrutiny on individual projects from assigned individuals (management accountants and process owners) which is the process commonly used elsewhere in TfL.</p> <p>This results in part from the level and complexity of projects. We expect more complex projects, at higher risk of not delivering forecast savings, to be subject to more scrutiny (for example, Horizon, APD and CSTP which involve significant changes in structure and headcount and major capital programmes, many of which sit in Rail & Underground).</p> | <p>complex.</p> <p>There are also opportunities to streamline monitoring in some areas in the way in which, for example, Surface Transport has streamlined its identification and reporting of savings initiatives.</p> <p>Given that the three business units are currently operating largely in isolation in this area, there is a risk that TfL's resource is not focussed on developing and monitoring the highest risk areas of the Programme.</p> <p>We do note that the dashboard reporting introduced at the May 2013 Value group clearly highlights initiatives at higher risk of not delivering forecast savings. We consider that continuing to report in this way will support TfL to subject such initiatives to additional scrutiny at business unit level (in the first instance) as required.</p> | <p>We also recommend the Group and the senior accountants responsible for the three business units work together to consider whether the overarching processes set out in the figures in section 2.1 above can be streamlined into one TfL wide process. Furthermore, we recommend that accounting leads of the S&E initiatives for each of the three business units meet on a regular basis (at least quarterly) to understand and share best practice within their business unit's processes for the Programme.</p> | |

3 Summary findings from testing of initiatives within savings and efficiency programme

3.1 Introduction

We undertook the following tests across each of the twelve savings and efficiency initiatives set out in section 1.2.

A. Test of controls

For each initiative we sought evidence of the following controls:

- Initial review / approval of savings identified for the initiatives
- Formal review of amendments of savings made to the initiative (where relevant)
- Formal review of savings included in the forecast
- Reconciliations of savings reported in S&E databases to SAP
- Formal review of amendments made to categorisation of projects in causal analysis
- Formal review of outturn against forecast for the initiatives

B. Substantive testing

- Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13'
- Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving
- Reperformed the calculation of the saving to check accuracy

- Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records)

We have set out in Appendix 1 our results of substantive testing.

3.2 Summary findings

A. Tests of controls

Our findings on the testing of controls over the twelve initiatives set out in section 1.2 have been included in section 2.3 above.

B. Substantive testing

The table below sets out our findings on the resilience and sustainability of the savings reported for the twelve initiatives set out in section 1.2 above, focusing on the risks to achieving the savings.

| Finding | Implication | RAG rating ⁴ |
|---|--|--|
| Financial assumptions | | |
| <p>1. Savings within negotiated contracts</p> <p>A number of savings are based on contracts which have already been negotiated or are based on termination of existing contracts:</p> <ul style="list-style-type: none"> • Accommodation strategy: with the exception of £1.6 million, savings have been assigned to known contracts due to expire. • Operation: reduce cost of Oyster cards through direct procurement: The contracts have been renegotiated for the four year period from May 2013 to 2017, with the option to extend for a further two years in perpetuity. | <p>The savings within negotiated contracts are deemed relatively secure.</p> | <p style="text-align: center;"> Green</p> |

⁴ See RAG rating definitions on Page 24. The RAG rating reflects the risk rating for controls operating over savings and efficiency initiatives and the risk rating for evidence to support substantive tests, based on the specific tests we undertook.

| | | |
|---|--|--|
| <ul style="list-style-type: none"> Lifts and escalators: 30 year contract in place which extends beyond the 2021/22 period. CPD - track contracts: savings based on contracts in place until 2015/16 (with savings forecast beyond this period monitored through separate initiative within the S&E Programme). | | |
| <p>2. Savings outside of the period of recently negotiated contracts</p> <p>In one instance, Bus network – Tender contract prices, savings are based on recent or forthcoming negotiations of contracts with external providers. The current contracts run to 2017 at the latest. £17 million of the total £43.7 million saving is for the period 2017/18 to 2021/22.</p> | <p>There is a risk that the contracts cannot be renegotiated at current rates (plus inflationary uplift) at the end of the contract period.</p> | <p style="text-align: center;"> Amber / Green</p> |
| <p>3. Savings within contracts not yet renegotiated</p> <p>In one instance, TCMS2, savings are based on renegotiating an existing contract. This assumes a 5% saving on current contract prices. The procurement process commenced in April 2013 and it is expected that contracts will be signed by May 2014.</p> | <p>Whilst similar contracts have recently been renegotiated to achieve significant savings (for example, a road maintenance contract, LOHAC, was recently renegotiated to achieve a 25% saving), there is a risk that the market will not enable TfL to make the required saving on this contract.</p> <p>This is mitigated in part by TfL's recent renegotiation track record with similar contracts at favourable rates.</p> | <p style="text-align: center;"> Amber / Green</p> |
| <p>4. Headcount reduction: savings already achieved</p> <p>A number of savings are based on ongoing reductions in headcount which has already been made.</p> <ul style="list-style-type: none"> Surface Transport wide - Headcount FTE reductions and payroll savings (traffic) [actual saving is £0.3 million per annum below target from 2009/10 to 2012/13, which we have extrapolated to £1.0 million to 2021/22] Horizon [actual savings of £23.7 million higher than target from 2011/12 to 2012/13, which we have extrapolated to £130 million to 2021/22] APD / ATMS [actual savings not available given the early stage of the initiative] Operating cost review [actual saving £5 million higher than target for 2010/11 to 2012/13, which we have extrapolated to £20 million to 2021/22] <p>These forecast savings are based on average salaries.</p> <p>We also noted in two cases that there were some minor discrepancies between the</p> | <p>There is a risk that the full extent of the forecast savings and efficiencies are not achieved due to actual salary and anticipated headcount reduction being lower than expected.</p> <p>This is in part addressed by actual outturn against these savings being higher than forecast in two of three cases.</p> | <p style="text-align: center;"> Amber / Green</p> |

reported savings and underlying calculations of the savings (see below).

5. Inflationary uplift

For the following projects we could clearly identify inflationary uplifts being applied to savings over future periods:

- Operating cost review – 3.5% annual uplift
- CSTP – 2.9% (2013/14), 4.0% (2014/15) and 3.5% (2015/16)

Consumer Price Index inflation per ONS was 2.8% in February 2013 and 2.7% for the previous five months. We have not been provided any evidence to support the use of a higher inflation rate in calculating these forecast savings.

There is a risk that, over the longer term, forecast savings will not be achieved as actual inflation is lower than predicted inflation.


Amber

Stakeholders

6. CSTP savings to be achieved

The aim of the CSTP initiative is to make savings whilst improving the station experience for customers. Detailed plans of how savings will be achieved are not mature though savings are due to take effect from November 2014. The total saving to be achieved is officially reported as £334 million although it remains in relatively early stages as assumptions continue to fluctuate. This estimate is the 'medium case scenario'. A best case scenario of £430 million has also been calculated.

There is a risk that savings on this scale will not be achieved given the lack of maturity of the detailed plans at this stage. This would be mitigated in part by the governance, processes and controls in place over the project. We would expect similar programme management activities in place as for other major savings programmes in Rail & Underground (which are engineering orientated). Our detailed testing has identified some current weaknesses in the governance framework for this programme.


Amber/Green

Governance

7. Minor discrepancies in reported savings and underlying evidence

In a number of cases there were minor differences between the savings reported in the 2012/13 Q4 Value Group Efficiencies Programme Update' reports compared with the underlying savings:

- Surface Transport wide - Headcount FTE reductions and payroll savings (traffic): the original calculation could not be identified, though an estimated calculation re-performed by TfL for this work calculated a saving of £2.6 million. This was £0.3 million (10%) lower than the reported forecast saving per annum. This project dates back to 2009/10.
- Horizon: the reported saving was £7.69 million (1.3%) higher than the saving in

There is a risk that total savings reported are not in line with underlying calculations of savings. This may in part be due to limited formal review of the calculation of savings which is expected to identify such differences in reporting.


Amber / Green

TfL's underlying calculation.

- Operations – reduce cost of Oyster cards through direct procurement: the reported saving was £0.5 million (1.8%) higher than the saving in TfL's underlying calculation.
- Finance – Accommodation strategy: the reported saving was £2 million (1.5%) higher than the saving in TfL's underlying calculation. There were also differences in the phasing of the savings across the years up to 2021/22.

Appendix 1: Detailed results of testing of initiatives within savings and efficiency initiatives

We have set out below our detailed findings resulting from our testing of initiatives within the Programme. For each test, we have provided a RAG rating which sets out the risk rating for controls operating over these initiatives ('tests of controls' section) and the risk rating based on evidence to support our substantive tests ('substantive testing' section). For each section of testing we have provided an average RAG rating based on our findings for each individual test.

We have set out our RAG rating key below:

RAG rating key



RED
No evidence of process or controls in operation

AMBER
Evidence of process or control is in operation but not fully documented

GREEN
Evidence of the process or control is documented and fully evidenced

1. Bus Network - Tender contract prices [£466 million saving to 2021/22]

| | | |
|--------------------------------|---|---|
| Average RAG score ⁵ | Tests of controls | Substantive testing |
| | Amber  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|--|---|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> Initiative discussed at Surface Board at development stage. Surface Board paper, dated September 2011, provides an update on the finance forecast position, including the savings identified in the bus tender process. Minutes evidence that the overall forecast position is discussed, although no specific reference is made to the bus tender initiative. No formal evidence that initiative and the estimated saving had been approved prior to Surface Board. | N/A |  Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Any changes that are made to the existing initiative are made through the change log. Change logs are reviewed on a quarterly basis by Surface Board. No formal evidence exists of review of amendments of savings to the initiative prior to Surface Board review (over the period 2009/10 to present). Emails were evidenced between the financial planning team and initiative owners on amendments made to savings, as part of the quarterly forecast review process, although not specifically related to this project. | Section 2.3 Finding 1 |  Amber / Green |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Surface Board review of the quarterly finance reports and meeting minutes from September 2011 were documented, evidencing discussions on savings | Section 2.3 Finding 1 |  Amber |

⁵ Average RAG scores have been arrived at by scoring tests with a 'green' status as '1' through to a 'red' status as a '5'. A numerical average has been calculated and the appropriate RAG score has been allocated in line with the scoring mechanism above. This average score is indicative only and no conclusions should be drawn on the Programme based solely on this RAG rating.

| Test | Finding | Reference to summary finding | RAG rating |
|--|--|------------------------------|---|
| | <p>had taken place.</p> <ul style="list-style-type: none"> No formal evidence exists of approval of savings included in the forecast prior to Surface Board in place (over the period 2009/10 to present). Reviewed the terms of reference for Surface Board, and agreed that approving the forecast is one of the items the Surface Board are responsible for. Outturn is formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | | |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Quarterly reconciliation is carried out between SAP and S&E database by the financial planning team. Evidence that these checks have been carried out was provided. No formal evidence exists of the review of the reconciliation (over the period 2009/10 to present). | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> Evidence of the quarterly review process at which we have been told (but cannot confirm) that review of amendments to categorisation takes place was provided. No formal review of amendments was documented. | Section 2.3 Finding 1 |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> It is stated that the efficiency calculations are reviewed by the Director responsible for the bus tendering process and by Surface Board. No formal evidence exists of review of the change log or the efficiency calculation reviewed at Director Level (over the period 2009/10 to present). | Section 2.3 Finding 1 |  Amber |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | Section 2.3 Finding 3 |  Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <p>Note: review of these calculations highlighted that the contract only runs to 2017 at the latest. A risk remains with the achievement of this saving from 2017/18 to 2021/2022 (note: contract not reviewed).</p> <ul style="list-style-type: none"> The total bus tendering saving of £466m is comprised of a large number of | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|---|------------------------------|------------|
| | <ul style="list-style-type: none"> saving lines associated with all of the bus routes. Agreed total saving to breakdown of saving across contracts. An individual line was selected from the total saving of £466m and traced back to the underlying savings ("Actual 2011/12 Tender Price Savings since P11 Forecast") and the £43.7m efficiency agreed to the underlying database. | | |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A | ● Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> Supporting assumptions included in the financial model were provided i.e. fuel increases, wage increases and inflation. Two contracts were obtained for Route 61 and Route 193 and evidenced the underlying saving. | Section 3.2 Finding 2 | ● Green |

2. Surface Transport wide - Headcount FTE reductions and payroll savings (traffic) [£40 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Amber  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> No evidence was available on the initial review/approval of this saving | Section 2.3 Finding 1 |  Red |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> No formal review of amendments was documented. | Section 2.3 Finding 1 |  Red |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Any changes that are made to the existing initiative are made through the change log. Change logs are reviewed on a quarterly basis by Surface Board. No formal evidence exists of review of amendments of savings to the initiative prior to Surface Board review (over the period 2009/10 to present). | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Quarterly reconciliation is carried out by between SAP and S&E database by the financial planning team. Evidence that these checks have been carried out was provided. No formal evidence exists of the review of the reconciliation (over the period 2009/10 to present). | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> Evidence of the quarterly review process at which we have been told (but cannot confirm) that review of amendments to categorisation takes place was provided. No formal review of amendments was documented. | N/A |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Review and approval of the outturn against saving by the TfL agreed to TfL board paper, dated 12th May 2009. | N/A |  Green |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving in from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|--|---|--|
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> The saving was delivered in 2009/10 - as there is no audit trail of the saving for that period an estimated method of the calculation was provided. 2010 HR report was provided, showing actual FTE reduction of 42.5. Saving was calculated by applying average salary information from 2010 giving a saving £2.6m. This is £0.3m lower than the original budgeted reduction of £2.9m. | <p>Section 3.2 Finding 4</p> <p>Section 3.2 Finding 7</p> |  Amber |
| Reperformed the calculation of the saving to check accuracy | Original calculation and supporting evidence was not available (see estimated calculation above). | N/A |  Red |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> Historic FTE information was provided. 2010 HR reports were provided as a basis for the average salary information. | Section 3.2 Finding 4 |  Amber |

3. Traffic Control Maintenance and Related Services – 2 (TCMS2) [£15 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> We reviewed the procurement strategy and business case. The saving target of £7m is included within the business case. The signed procurement strategy, which makes reference to the savings within the business case, was signed by Procurement Manger, Head of Commercial Surface, Traffic Directorate Director, Finance Director and Managing Director of Surface. | N/A |  Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> An amendment was caused by a delay in implementing this project. We confirmed that the change log captured the original forecast and the amendment made when the contract go live was deferred. Approval of the change took place at the Commissioner’s BMR meeting. Board paper provided showing TCMS2 project. No formal evidence of the Board approving this change was provided. | Section 2.3 Finding 1 |  Amber |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> The amendment was reflected in the change log of Q4 2011/12 and the Q4 S&E dashboard which underpins the Value Group Efficiencies Programme Update’ reports. No formal evidence of formal review available. | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Quarterly reconciliation is carried out between SAP and S&E database by the financial planning team. Evidence that these checks have been carried out was provided. No formal evidence exists of the review of the reconciliation (over the period 2009/10 to present). | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> Evidence of the quarterly review process at which we have been told (but cannot confirm) that review of amendments to categorisation takes place was provided. No formal review of amendments was documented. | N/A |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> N/A - no evidence of outturn review available since this project is classified as ‘identified 1’ (i.e. this is not yet in the delivered phase). | N/A | N/A |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|---|---|
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update'– Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update'– Quarter 4, 2012/13 to the savings and efficiency datasets. In addition, agreed the total saving reported in the change logs of P5 2010/11 tied through to the underlying calculation spreadsheet. | N/A |  Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> A target saving of 5% was put in place for this project. Detailed calculations and supporting evidence for specific projects to achieve the saving are not in place. We have evidenced actual savings of 25% on a similar contract re-tender project (LoHAC') with reference to October 2012 Surface Transport Board minutes. | <p>Section 2.3 Finding 4</p> <p>Section 3.2 Finding 3</p> |  Amber |

4. Finance – Accommodation Strategy [£269 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Amber/Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> A top down approach was applied to the Accommodation Strategy, whereby a central imposed target was initially set and the team then worked through a more detailed bottom up approach by the business to quantify these savings. No formal review of agreement of proposed savings to the total value of saving was provided. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Finance was embedded within the property team. We have evidenced review of reduction in the total initiative saving at the March 2011 Efficiency Delivery Group meeting (a pre-cursor to the Value Group). No formal review of amendments at a business area level was documented. | Section 2.3 Finding 1 |  Amber |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Evidence of recent review was provided (an email from Head of Accommodation Strategy to finance team in Corporate following internal review and agreement to the Q4 financial report). No formal evidence of review was available. | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> An extract from SAP was provided, which dated back to 2009/10 and provided detail on the individual buildings. We have been told (but cannot confirm) that checks were carried out by finance to reconcile SAP to the savings table. No formal evidence of this review was available. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> No formal evidence of review was available. | Section 2.3 Finding 1 |  Red |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> No formal evidence of business unit review was available. We did note that Accommodation Strategy has its own summary reporting within the Value Group Efficiencies Programme Update' reports. | Section 2.3 Finding 1 |  Amber |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|--|--|
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> We identified a difference of £2 million (1.5%) between the dashboards within the 'Value Group Efficiencies Programme Update'– Quarter 4, 2012/13 and the Savings and Efficiency Database. Furthermore, within this £2 million difference there were differences identified in the phasing of the savings across the years up to 2021/22. The largest difference was (£34.6m) in 2017/18, offset largely by £10.2m in 2014/15 and £20.6m in 2015/16. | Section 3.2 Finding 7 |  Amber |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Agreed total forecast savings within the Efficiency and savings database to the total amount of the savings within the underlying calculations. | N/A |  Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A | N/A |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <p>For the purposes of this review, two saving streams were selected for additional testing. The following evidence of savings was identified:</p> <ul style="list-style-type: none"> Agreed a £15 million 'secondary revenue' payment to TfL for releasing the contract on the Shard to the supporting contractual document. Agreed £957,000 forecast annual saving for the Butler Place building to the landlord's agreement to the contract termination and actual costs for 2011/12 of £867,000. | Section 2.3 Finding 4 Section 3.2 Finding 1 |  Amber |

5. Operations – reduce cost of Oyster cards through direct procurement [£27 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Amber/Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> Paper tabled at Board meeting (17 March 2011) setting out expected saving due to change in contract. No formal documentation of the anticipated savings is available at a business unit level. However, a comprehensive risk assessment over the saving was prepared at this stage. | N/A |  Amber |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> There are expected to be amendments made to these future savings forecasts as the demand forecasts change (i.e. the forecast quantity of Oyster cards required changes). We have been told (but cannot confirm) that forecast savings are updated for changes in demand forecast in liaison between the business stakeholders the business accountant for this initiative and are then approved by the Infrastructure and Operations Lead and the Customer Experience Director There is no formal evidence of this review (although we note that the savings are not due to be generated until 2014). | Section 2.3 Finding 1 |  Amber |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> We have been told (but cannot confirm) that Finance and Performance Manager and the Customer Experience Director approved forecast savings as part of the quarterly reporting process. There is no formal evidence of this review (though we note that the savings are not due to be generated until 2014). | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> We have been told (but cannot confirm) that SAP and the causal tracker are aligned on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> We have been told (but cannot confirm) that categorisation is reviewed as part of the quarterly reporting process (for example, evidence was available of a change from D1 to D2 at the quarter 2 2012/13 review stage as an error was identified in DIO coding) | Section 2.3 Finding 1 |  Amber |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| | <ul style="list-style-type: none"> No formal evidence of review is available. | | |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Outturn is formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | Section 2.3 Finding 1 |  Amber |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> A difference of £0.51 million (1.9%) was identified between savings per the savings and efficiencies database (£27.1 million) and those per the underlying spreadsheet. This difference relates to an in-year over delivery of savings related to numerous items across cost base that were not associated with Oyster cards, and should have been reported separately. | Section 3.2 Finding 7 |  Amber |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> The unit prices used to profile / forecast the savings were based on the previous contract (with Cubic) minus the unit overheads. Signed contracts with suppliers "Exceet Card Group", "Ask", "Gernalto" and "Austria Cards" have been provided which evidence unit price used in the calculation. An error of £0.48 million (1.8%) was identified in the 2015/16 saving due to overstatement of the estimated number of cards required (due to human error in copying the card quantities from the Card Cost Model to the Savings Profile). | Section 3.2 Finding 1 |  Amber |

6. Asset performance (APD) [£1,656 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber/Green  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|--|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> Ideas for new initiatives are assessed against a number of criteria (inc. savings estimate, likelihood of achieving savings and confidence in the savings estimate). A number of stakeholders are included in the process: AP initiative PMO; Functional leads; and Technical leads are consulted in idea assessment, and assessments are circulated to the entire Work stream and Steering Group. There are 5 stage gate review points for all projects: "project start", "confirm feasibility", "implementation plan confirmation", "ready to implement" and "benefits realisation". The APD saving initiative is made up of over three hundred individual initiatives. All 5 stage gate reports have been provided for an example initiative ("Reduce agency staff by 12 %"). Reports are comprehensive, covering a checklist of required outputs for passing the stage including commentary, forecast/achieved savings, risks/mitigations, signoff at each stage from various stakeholders. These reports are signed off by project owner, project lead and head of performance and planning. | N/A |  Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Potential changes to the savings, deliverables or milestones or required resources compared to those stated in the approved project outline document are logged in a Change Request Document. Proposed changes are reviewed at the weekly work stream review meeting and, where appropriate, reviewed by the Chief Asset Performance Officer (CAPO) or a delegated individual. The APD saving initiative is made up of over three hundred individual initiatives. Signed change request form provided for an example initiative (ATMS) | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> The responsible management accountant and business leads review forecasts, followed by review from the Head of Operational Finance or the Head of Capital Programmes Finance and the Chief Asset Performance Director with the heads of service. There is no formal evidence of review. | Section 2.3 Finding 1 |  Amber / Green |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. We have been told (but cannot confirm) that these are reviewed by the Head of Operational Finance or the Head of Capital Programmes Finance on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber / Green |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> The process overview indicates that the Efficiencies forecast report is provided to Planning & Performance where risk values (which contribute to classification) are assessed. There is no formal evidence of this process. | Section 2.3 Finding 1 |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> For each project, a Benefits Realisation Report is produced in the "Benefits realisation" stage that confirms the benefits realised. This evidences agreement with the Finance team who confirm actual savings, financial year phasing, and the associated cost centre and provide SAP updates (where relevant). An example stage gate report (for project "Reduce agency staff by 12 %") has been provided that indicates that benefits have been realised according to plan. All stage gate reviews for this project prior to the benefits realisation stage have been provided, and are signed by the relevant parties. The APD steering group also review a quarterly efficiencies programme report that details: <ul style="list-style-type: none"> -Milestones and Savings Achieved, Risks, Gate Reviews -3 month look-aheads -Change requests Outturn is also formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). | N/A |  Green |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|--|------------------------------|------------|
| (‘secured’ and ‘unsecured’) through to the ‘Savings and Efficiencies Dashboard – Quarter 4, 2012/13’ | efficiency datasets. | | |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> The underlying annual savings align with the savings identified in the savings and efficiencies datasets. | N/A | ● Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> Given the size of the savings programme we selected two lines for recalculation (line 275, "Support services review", valued at £24.1m; and line 240, "Collaboration / standardisation with Network Rail", valued at £3.7m). No issues were noted with the calculation. We also identified calculation checks within the savings and efficiency database (for example, an alternative total of annual savings by each main area within APD, the annual total of which is checked against total savings of the full list of projects). We noted that all checks indicate no inconsistencies in calculation. | N/A | ● Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> N/A - The APD saving initiative is made up of over three hundred individual initiatives. One programme initiative within APD, ATMS, has been reviewed in more detail (see saving and initiative 8). | Section 3.2 Finding 4 | N/A |

7. Automatic Track Maintenance System (ATMS) [£38 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Amber/Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> The full business case includes sign-off of cross business stakeholders review of the initiative. | N/A |  Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> There are 5 stage gate review points, after every major stage of "Project start", "Confirm feasibility", "Implementation plan confirmation", "ready to implement" and "Benefits realisation". Change requests are included in weekly project and performance review meetings. Major change requests are updated to the steering group in the periodic steering meeting. Documentation was provided for a formal change request that occurred in February 2013. This related to a revision of milestones given the team better understood the time required for each project installation. This included including project manager approval request, and APD director sign-off. | N/A |  Green |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> We have been told (but cannot confirm) that the responsible management accountant and business leads review forecasts, followed by review from the Head of Operational Finance or the Head of Capital Programmes Finance and the Chief Asset Performance Director with the heads of service. There is no formal evidence of review. | Section 2.3 Finding 1 |  Red / Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. We have been told (but cannot confirm) that these are reviewed by the Head of Operational Finance or the Head of Capital Programmes Finance on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> We have been told (but cannot confirm) there is a review of the amendments made, by the relevant accountant, by Head of APD, and | Section 2.3 Finding 1 |  Red / Amber |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|--|--|
| | <p>then the Chief Asset Performance Director.</p> <ul style="list-style-type: none"> All individuals agree to amendments to forecast. There is no formal evidence of review. | | |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> N/A - No savings have yet been reported for this project which started during 2013. | N/A | N/A |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> The figures from the S&E database can be traced to the APD project database directorate savings and efficiency database. We have been told (but cannot confirm) that this is because of delays in project execution which led to delays in realising benefits. | Section 3.2 Finding 7 |  Amber |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> A target saving of 7.5% was put in place for this project (which we have been told but cannot confirm is in line with savings achieved in similar projects in Rail & Underground). Detailed calculations and supporting evidence for specific projects to achieve the saving are not in place. The business case has been provided which describes the source/build up of potential savings (there are several components to the in-year figures). However, no specific evidence has been provided that evidence the underlying assumptions in the calculation. | Section 2.3 Finding 4 Section 3.2 Finding 4 |  Red / Amber |

8. CPD – track contracts [£176 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber/Green  | Amber/Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> Request for approval of the saving evidenced through a Board paper provided, dated 22 Sept 2010. No formal evidence of review identified at business unit level. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Document provided listing amendments made in year 2012/13 and the responsible accountants for each change. No formal evidence of review of amendments. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Document provided that demonstrated revisions to forecast efficiencies over the period 2012/13 to 2021/22. However, there is no formal evidence of review of these reforecasts. | Section 2.3 Finding 1 |  Amber/Green |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. We have been told (but cannot confirm) that these are reviewed by the Head of Operational Finance or the Head of Capital Programmes Finance on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> We have been told (but cannot confirm) that changes made to categorisation are updated in the savings and efficiencies database. A sample of backup causal analysis and related emails were provided which demonstrate this control in action in 2012/13. However, there is no formal evidence of periodic review. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Outturn is formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | Section 2.3 Finding 1 |  Amber/Green |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|---|--|--|
| ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | efficiency datasets. | | |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Total saving agreed to underlying calculations. | N/A |  Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> No underlying evidence to support the elements making up the calculation have been provided. We have been told (but cannot confirm) that this is due to these documents being held in archive and not readily accessible. | Section 2.3 Finding 4 Section 3.2 Finding 1 |  Red |

9. CPD – lifts and escalators [£36 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber/Green  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> We have been told (but cannot confirm) that the responsible management accountant performed a detailed analysis to assess the final outcome against the budgeted efficiency. There is no evidence that this analysis was reviewed and authorised by another level of management. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Document provided listing amendments made in year 2012/13 and the responsible accountants for each change. No formal review of amendments was documented | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Document provided that demonstrated revisions to forecast efficiencies over the period 2012/13 to 2021/22. There is no formal evidence of review of these reforecasts. | Section 2.3 Finding 1 |  Amber/Green |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. We have been told (but cannot confirm) that these are reviewed by the Head of Operational Finance or the Head of Capital Programmes Finance on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> We have been told (but cannot confirm) that changes made to categorisation are updated in the savings and efficiencies database. A sample of backup causal analysis and related emails were provided which demonstrate this control in action in 2012/13. There is no formal evidence of this review. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Outturn is formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from | Section 2.3 Finding 1 |  Amber/Green |

| Test | Finding | Reference to summary finding | RAG rating |
|---|--|------------------------------|------------|
| | Finance Leadership Team meetings in 2013). <ul style="list-style-type: none"> No formal evidence of business unit review is available. | | |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A | ● Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Total saving agreed to underlying calculations. | N/A | ● Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A | ● Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> Lifts and escalators contracts were obtained. Reviewed a document which showed how the contract values agree back to the analysis of the saving provided. | Section 3.2 Finding 1 | ● Green |

10. Customer Services Transformation Project (CSTP) [£334 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber/Green  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> The initial review identified that there will be savings of £334m. This is the value of the saving reported in the savings and efficiencies dataset. The financial model that has been developed identifies savings up to £430m in a “best case scenario” of the total saving. Sensitivity analysis has been carried out and we have been told (but cannot confirm) that a range of stakeholders have input into the financial model (CSTP programme leads, finance and HR professionals). However, the process is still in the development stages and no specific documentation of approval has yet been drawn up. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> As the project is in the development stages, assumptions are being updated and therefore there are regular changes made to the savings amount. The financial model has captured a range of financial savings, from £240m (min) to £430m (max), with a mid case scenario of £334m. No formal review of amendments was documented. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Projected CSTP savings of £334m have been included in the forecast figures on the quarterly basis. The financial model has been developed by the Opex Efficiencies Analyst. No formal evidence of review has been provided to demonstrate this step has been undertaken. | Section 2.3 Finding 1 |  Amber/Green |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. We understand that these are reviewed by the Head of Operational Finance or Head of Capital Programmes Finance on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments made to | <ul style="list-style-type: none"> N/A – As the initiative is in the development stages there have been no | N/A | N/A |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|--|------------|
| categorisation of projects in causal analysis | changes to the categorisation of the initiative. | | |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> N/A - No savings have yet been delivered as this project is still in the development stages. | N/A | N/A |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A | ● Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Total saving agreed to underlying calculations. | N/A | ● Green |
| Reperformed the calculation of the saving to check accuracy | No issues noted. | N/A | ● Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> A detailed financial model has been developed to calculate the efficiency savings. An email from a relevant individual was provided which was used by finance at the time the saving was calculated that supported the assumptions used to calculate the saving. | Section 3.2 Finding 5 Section 3.2 Finding 6 | ● Green |

11. Horizon [£609 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|--|---|------------------------------|--|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> Agreed to original Board sign off of every work stream business case (which included a page on the benefit cost analysis). | N/A |  Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Quarterly forecast reconciliations are the key control for capturing changes made to categorisation or amount. 2011 annual movement reconciliation spreadsheet was provided, which demonstrated amendments made to Horizon savings. No formal evidence of review was available. | Section 2.3 Finding 1 |  Amber |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> Forecasts are formally reviewed by Finance Leadership Team on standard fortnightly meetings and sessions are held to consider the quarterly forecast position (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> We have been told (but cannot confirm) that SAP and the causal tracker are aligned on a quarterly basis. There is no formal evidence of this reconciliation. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> Amendments to categorisation are reviewed through the risk assessment database. No formal evidence of review is available. | Section 2.3 Finding 1 |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Outturn is formally reviewed at the regular Finance Leadership Team meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | Section 2.3 Finding 1 |  Amber |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|---|--|--|
| 2012/13' | | | |
| Agreed the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving | <ul style="list-style-type: none"> Saving reported in 'Value Group Efficiencies Programme Update'– Quarter 4, 2012/13' was higher than the forecast saving calculation by £7.69 million (1.3%). The team has investigated this difference to identify the reconciling items. Selected one work stream area (OneHR), which was agreed to underlying calculation of the saving. | Section 3.2 Finding 7 |  Green |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> For the purpose of this review the Finance and Commercial Development work streams was selected for further consideration. We have agreed FTE changes to the underlying Business Case (dated 27 October 2011) and the financial implications to a Financial Benefits Summary. Whilst the two are linked there is a lack of clear evidence in moving from the FTE saving to the financial saving. | Section 2.3 Finding 4 Section 3.2 Finding 4 |  Amber |

12. Operating cost review [£376 million saving to 2021/22]

| | | |
|-------------------|---|---|
| Average RAG score | Tests of controls | Substantive testing |
| | Amber  | Green  |

| Test | Finding | Reference to summary finding | RAG rating |
|---|---|------------------------------|---|
| A. Tests of controls | | | |
| Initial review / approval of savings identified for the initiatives | <ul style="list-style-type: none"> The Managing Director's performance report, dated Period 13 2009/10, references the headcount numbers that were used to calculate the saving. No formal evidence of approval of the anticipated savings is available. | Section 2.3 Finding 1 |  Amber/Green |
| Formal review of amendments of savings made to the initiative (where relevant) | <ul style="list-style-type: none"> Initial calculations of the saving was made in 2007/08. We have been told (but cannot confirm) that there have been no formal review and the underlying assumptions since this time. No formal evidence of review of amendments. | Section 2.3 Finding 1 |  Amber |
| Formal review of savings included in the forecast | <ul style="list-style-type: none"> No formal review of amendments was documented. The reconciliation identified a difference of £0.8 million (0.1%) between the savings and efficiency database and the underlying calculations. | Section 2.3 Finding 1 |  Amber |
| Reconciliations of movements in savings reported in S&E databases to movements in SAP | <ul style="list-style-type: none"> Evidence has been provided that the causal tracker and SAP database are reconciled on a quarterly basis. There is no formal evidence of review of this reconciliation. | Section 2.3 Finding 1 |  Amber |
| Formal review of amendments made to categorisation of projects in causal analysis | <ul style="list-style-type: none"> We have been told (but cannot confirm) that changes made to categorisation are updated in the savings and efficiencies database. There is no formal evidence of review. | Section 2.3 Finding 1 |  Amber |
| Formal review of outturn against forecast for the initiatives | <ul style="list-style-type: none"> Outturn is formally reviewed at the regular meeting (evidenced through Board papers and action points from Finance Leadership Team meetings in 2013). No formal evidence of business unit review is available. | Section 2.3 Finding 1 |  Amber/Green |
| B. Substantive testing | | | |
| Traced the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' | <ul style="list-style-type: none"> Agreed the total saving from the dashboards within the 'Value Group Efficiencies Programme Update' – Quarter 4, 2012/13 to the savings and efficiency datasets. | N/A |  Green |
| Agreed the total saving reported in the savings and efficiencies data sets to the | <ul style="list-style-type: none"> A detailed analysis of the total OCR savings was obtained. The total savings of £636m is from 3 projects: Finance and Support Offices (£172.3m), | N/A |  Green |

| Test | Finding | Reference to summary finding | RAG rating |
|--|--|--|--|
| underlying calculation of the saving | <p>Support (£104.7m) and Capital Programmes Directorate (£359.8m).</p> <ul style="list-style-type: none"> • These amounts were agreed to the total savings reported in the savings and efficiencies dataset. | | |
| Reperformed the calculation of the saving to check accuracy | <ul style="list-style-type: none"> • No issues noted. | N/A |  Green |
| Agreed all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records) | <ul style="list-style-type: none"> • For all three projects, the savings were achieved by reduction in staff numbers in year 09/10. Savings were calculated using an average salary cost. The savings were then taken to following years by increasing the amount year on year using an assumed inflation rate of 3.5%. • Evidence that average salary cost is an appropriate proxy for salary and to support the estimated headcount reduction at the time of the calculation is not available. However, an HR report of headcount numbers for 2008/09 (2,353), and 2009/10 (2,027) to retrospectively demonstrate reduction in FTE. This equated to a headcount reduction of 326 people which is in line with the FTE reduction anticipated in the saving. • We also understand reductions in FTE in Rail & Underground in particular tend to be across all grades. • We have not been provided the detail of actual savings achieved against the predicted savings. | <p>Section 2.3 Finding 4</p> <p>Section 3.2 Finding 4</p> <p>Section 3.2 Finding 5</p> |  Amber |

Appendix 2: Scope of work

The following is an extract of the scope of work relevant to the review of governance, processes and controls and testing of programme initiatives set out in Attachment 1 to call off contract ('Task 2'), under framework agreement 'TfL 90440', dated 15 May 2013.

1. Services to be provided

This attachment sets out the scope of services that PricewaterhouseCoopers LLP (PwC) will provide for Transport for London (TfL) under this call off contract. Any terms contained within this attachment apply only to the services specified in this attachment.

PwC will perform the following limited scope procedures on TfL's savings and efficiencies programme:

- Meet with relevant resources for each of the three business units to:
 - Understand how the portfolio of savings and efficiencies initiatives are categorised for reporting and monitoring purposes.
 - Understand the governance structures in place over the savings and efficiencies initiatives (including how initiatives are initially quantified, how savings are classified as 'secured' or 'unsecured', how risk categories are applied and the role of various TfL groups in monitoring the Programme).
 - Understand the governance structures in place over the monitoring and reporting of savings and efficiencies initiatives (including how risk categories over the Programme are updated, the controls in place to monitor delivery against the planned saving, the management processes and data management systems in place, and the role of various TfL groups in place to monitor the savings and efficiencies programme).

Task 1: Review of governance, controls and processes to date (2009/10 – 2012/13):

- Review the governance structures to understand what processes have been used to quantify, monitor and report savings (including a review of programme reporting templates and programme management structures).
- Agree with TfL the criteria against which PwC will review governance, controls and processes.
- Identify and test (on a sample basis) any key controls in place over quantification, monitoring and reporting of savings.
- Re-perform any reconciliation between the savings and efficiencies data sets and SAP.

Task 2: Test a sample of projects:

- Trace 'secured' and 'unsecured' savings and efficiencies reported in TfL's 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13' for the period 2009/10 to 2012/13 to the financial reporting within each of TfL's three business units (expected to include risk and opportunity schedules, financial forecasts, savings and efficiencies data sets, management accounts and interviews with key resources).
- Agree with TfL a sample of approximately 6 major savings and efficiencies initiatives and 6 individual projects to be subject to further scrutiny from the savings and efficiencies data sets of the three TfL business units. The major initiatives should each account for in excess of £100m in savings.

They are expected to include Horizon, CSTP and the bus contracts. The individual projects should be of varying types and from across the three business units.

- For each of the sample projects and sample initiatives selected:
 - Trace the total saving reported in the savings and efficiencies data sets ('secured' and 'unsecured') through to the 'Savings and Efficiencies Dashboard – Quarter 4, 2012/13'
 - Agree the total saving reported in the savings and efficiencies data sets to the underlying calculation of the saving
 - Recalculate the calculation of the saving to check accuracy
 - Agree all elements making up the calculation of the saving to documentary evidence (for example, contracts, restructuring programmes, HR records)
 - Rate any risks to in these savings and efficiencies initiatives against the criteria of governance, stakeholders and financial assumptions
 - Provide commentary on the effectiveness of the controls, including any recommendations on potential improvements

Task 3: Review of governance, controls and processes for the remainder of the Programme (2013/14 – 2021/22):

- Review the governance structures to understand what processes will be used to monitor and report savings (including a review of programme reporting templates and programme management structures)
- Re-perform any reconciliations between the savings and efficiencies data sets and SAP
- Identify and test (on a sample basis) any key controls in place over monitoring and reporting of savings.

For the avoidance of doubt, PwC will not comment on the validity of any assumptions that underpin the calculation of the saving nor will PwC comment on achievability of the saving.

Deliverables

PwC will provide TfL with two written reports detailing its findings in the following format:

D1: Detailed report on the findings of Tasks 1-3 including:

- A statement setting out from which TfL reports PwC traced the total 'secured' and 'unsecured' savings and efficiencies, as set out in TfL's 'Savings and Efficiencies Dashboard'.
- PwC's summary findings and recommendations over the effectiveness of governance structures, processes and controls in place over the quantification, monitoring and reporting of savings and efficiencies initiatives.
- For each of the savings and efficiencies initiatives selected PwC will report:
 - Any differences identified between the total saving reported in the savings and efficiencies data sets to the reports underpinning TfL's 'savings and efficiencies dashboard' (and any difference identified if relevant).

- Any differences identified between the total saving reported in the savings and efficiencies data sets and the underlying calculation of the saving.
- The recalculation of the saving.
- The documentary evidence which PwC has seen to support all elements of the calculation of the saving referencing the specific parts of these documents which support the calculation (or stating where no evidence has been made available).
- Summary findings on the resilience and sustainability of the savings reported for the sample initiatives, focusing on the risks to achieving the savings.

PwC will also rate any risks identified in these savings and efficiencies initiatives based upon the criteria of governance, stakeholders and financial assumptions.

D2: Report summarising the findings of Tasks 1-3.

PwC's reports ('the reports') will be addressed to TfL and will only relate to TfL's savings and efficiencies initiatives, not to any financial statements of the organisation taken as a whole.

The reports will be prepared solely for the purpose and use of TfL. PwC will not accept or assume any liability or duty of care to any other party to whom these reports are released or into whose hands they may come. PwC understands TfL may wish to disclose the reports to the London Assembly and/or the Greater London Authority (GLA), and whilst PwC consents to this, as the reports were not prepared for these bodies and their subsequent usage is unknown to PwC, TfL should advise these bodies that PwC will not accept or assume any liability or duty of care to these bodies. The work performed by PwC will not be completed for the purposes of these bodies. If these bodies rely on PwC's work they do so at their own risk.⁶

2. TfL responsibilities

TfL's officers have prepared the schedules underpinning the savings and efficiencies programme (as set out in 'The services to be provided' above) and will remain solely responsible for them and for the creation and maintenance of all accounting and other records supporting its contents. TfL is responsible for determining whether the scope of the services is sufficient for its purposes.

TfL will provide PwC with timely access to the data sets of initiatives that form the savings and efficiencies programme, and to further supporting information for the selected sample initiatives.

3. Limitations

The services will not constitute an audit or a review carried out in accordance with generally accepted auditing standards and PwC will give no assurance on the contents of the schedules underpinning TfL's savings and efficiencies programme (as set out in 'The services to be provided' above). If PwC were to perform additional procedures or an audit or review of the schedules underpinning TfL's savings and efficiencies programme (as set out in 'The services to be provided' above), other matters might come to its attention that it would report to TfL.

⁶ A minor deletion was made to this page after its dispatch to Members.

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