

## **Transport for London**

### **Minutes of the Audit and Assurance Committee**

**Meeting Rooms 1 and 2, Ground Floor, Palestra,  
197 Blackfriars Road, London, SE1 8NJ  
10.00am, Friday 15 June 2012**

#### **Members**

Keith Williams	Chair
Patrick O'Keeffe	Vice Chair
Charles Belcher	Member
Tony West	Member
Steve Wright	Member (for part)

#### **Present**

Sarah Bradley	Head of Group Financial Accounting (for part)
Howard Carter	General Counsel
Stephen Critchley	Chief Finance Officer
Shashi Verma	Director of Customer Experience (for part)
Alan Day	Senior Audit and Investigations Manager - Fraud and Security (for part)
Clive Walker	Director of Internal Audit

#### **In Attendance**

Robert Brent	Audit Partner, KPMG
Rebecca Pett	Senior Manager, KPMG
Wayne Southwood	Audit Partner, KPMG
David Burgh	Secretariat Officer

### **01/06/12 Apologies for Absence**

Apologies for absence were received from Baroness Grey-Thompson. Apologies were also received from Steve Allen, Managing Director, Finance.

### **02/06/12 Declarations of Interest**

The following interests were declared: Patrick O'Keeffe as a Trustee of ECT Charity; and Steve Wright on matters relating to private hire vehicles.

### **03/06/12 Minutes of the Meeting Held on 7 March 2012**

The minutes of the meeting held on 7 March 2012 were approved as a correct record and signed by the Chair.

### **04/06/12 Matters Arising and Actions List**

The Committee noted that, as a consequence of the arrangements for the outsourcing of audit work that had been undertaken by the Audit Commission, TfL would be obliged to

defer the tendering of its external audit service until 2017/18 at the earliest.

**The Committee noted the Actions List.**

### **05/06/12 KPMG Report to Those Charged with Governance**

Wayne Southwood of KPMG reported on the responsibilities of the external auditor and TfL, the key issues identified in the course of the audit of the accounts for the year and set out audit and accounting policy changes.

Risks to be addressed included the need for tighter access controls for IT users and monitoring of non permanent labour and consultants fees. The latter would be subject to an Internal Audit review in due course.

**The Committee noted the report.**

### **06/06/12 KPMG Letter on Independence and Objectivity**

Wayne Southwood of KPMG presented the letter, advising the Committee on the independence and objectivity of KPMG.

**The Committee noted the letter.**

### **07/06/12 KPMG Report on Non-Audit Fees for Six Months ended 31 March 2012**

Wayne Southwood of KPMG reported on the fees billed by KPMG for non-audit services.

**The Committee noted the report.**

### **08/06/12 Management Actions Report**

Clive Walker introduced the report, which informed the Committee of those recommendations to management which had not been actioned and were more than 60 days overdue.

Shashi Verma referred to the outstanding action in relation to discrepancies in reconciliations between refunds recorded on the Oyster Refunds System (ORS) and those recorded as paid on SAP. These had arisen as the new ORS was not compatible with the SAP financial accounting system. Once a review of files that had not been successfully passed between systems was completed, the discrepancy had reduced considerably. Stephen Critchley indicated that this was a historic problem, and systems were now in place to address this matter. The Committee noted the actions that had been taken and requested an Internal Audit review of this system in a year's time.

**[Action: Clive Walker]**

**The Committee noted the report.**

### **09/06/12 Internal Audit Quarter 4 Audit Report –2011/12**

Clive Walker introduced the report, which informed the Committee of the final internal audit reports issued in the fourth quarter of 2011/12, work in progress and work planned.

One audit report issued during the quarter, on One London End User Applications Software, had a poorly controlled conclusion. This audit report would be considered elsewhere at the meeting under the Internal Audit Annual Report.

With regard to the audit of compliance with the UK Corporate Governance Code 2010, Howard Carter informed the Committee that, although the Code did not apply to TfL, reference had been made to it as a benchmark for good practice. This work formed part of the Board Effectiveness review which comprised:

- (a) the benchmarking review of TfL's corporate governance against the Financial Reporting Council's UK Corporate Governance Code 2010;
- (b) a review of the effectiveness of the TfL Board's working practices, undertaken by Bridgwater Associates; and
- (c) a review of TfL's Committee and Panel structure in the light of changes since the last review. The new structure had been implemented from 1 April 2012.

**The Committee noted the report.**

## **10/06/12 Internal Audit Annual Report 2011/12**

Clive Walker introduced the report, which provided a summary of the Internal Audit activity for the year ended 31 March 2012, accounted for the use of resources and provided an opinion on the internal controls as required by the CIPFA Code of Practice for Internal Audit in Local Government.

The Committee noted that the two audits with 'poorly controlled' conclusions both related to areas of Information Management (IM) governance. This was an area where Internal Audit had identified a significant number of control issues. There are good relationships with IM and Internal Audit is offering support to make improvements.

The Committee noted that work on non permanent labour efficiencies had been deferred due to the organisational changes over the year, but this had now been scheduled for 2012/13.

**The Committee noted the report.**

## **11/06/12 KPMG Review of Internal Audit Effectiveness**

Wayne Southwood of KPMG reported on the proposed Terms of Reference of the KPMG review of Internal Audit effectiveness.

Clive Walker indicated that an internal review was undertaken annually, with an external assessment every three years. The external review had been deferred from 2011 due to the organisational change underway at the time.

**The Committee noted the paper.**

## **12/06/12 Crossrail Audit Committee**

Clive Walker informed the Committee on matters discussed at the Crossrail Audit Committee meeting held on 19 March 2012.

Relationships with Crossrail continued to develop in an efficient and positive way.

**The Committee noted the paper.**

## **13/06/12 Review of Governance and the Annual Governance Statement for Year Ended 31 March 2012**

Howard Carter introduced the review of compliance with the TfL Code of Governance in 2011/12 and sought approval for the Annual Governance Statement to be included in the 2011/12 Annual Report and Statement of Accounts.

The Committee welcomed the Statement and proposed one amendment to reflect TfL's commitment to continuous improvement in good governance.

**The Committee approved the Annual Governance Statement, as set out in Appendix 1 of the paper, subject to one minor amendment, for signing by the Chair of TfL and the Commissioner for inclusion in the 2011/12 Annual Report and Statement of Accounts.**

## **14/06/12 TfL Statement of Accounts for the Year Ended 31 March 2012**

Stephen Critchley introduced the paper, which presented the draft TfL Group Statement of Accounts and the Group Accounting Highlights memorandum for the year ended 31 March 2012. The Statement of Accounts would be referred to the meeting of the Board on 27 June 2012.

The Committee noted that a reserve balance, maintained at around £150m, was seen as appropriate to cover risks.

The Committee, in considering remuneration, discussed fees and salary paid to consultants and non permanent labour. Stephen Critchley reported that monitoring of costs for non permanent labour was undertaken by senior management. The taxation issue was more complex, though TfL deducted tax for all employees. These issues would be covered in forthcoming audit work.

The Chair, on behalf of the Committee, thanked Finance staff and KPMG for their work on the accounts.

**The Committee noted the draft Statement of Accounts and that the Chief Finance Officer would make any adjustments arising from the ongoing audit work prior to submission to the Board. Any material adjustments arising therefrom would be reported to the next meeting of the Committee.**



## **15/06/12 TfL's Annual Report**

The Committee considered the draft Annual Report for 2011/12, which set out TfL's performance over the past financial year. It suggested one minor amendment.

The Committee noted the Annual Report and delegated to the Managing Director, Marketing and Communications the task of making any adjustments prior to submission to the Board.

## **16/06/12 Any Other Business the Chair Considers Urgent**

There were no urgent items.

## **17/06/12 Exclusion of Press and Public**

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 5 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business, which contained information relating to the financial or business affairs of a person or authority and contained issues where a claim to legal professional privilege could be made.

## **18/06/12 Minutes of the meeting of the Audit Committee held on 7 March 2012**

The minutes of the meeting of the Audit Committee held on 7 March 2012 were approved as a correct record and signed by the Chair.

## **19/06/12 Matters Arising and Actions List**

In response to a Member's question about the audit of escalator cleaning, Howard Carter reported that health and safety assurance issues were reported to the Safety and Sustainability Panel. The Audit and Assurance Committee would receive reports on the progress of TfL's Assurance Plan, including audit work relating to health and safety issues.

The Committee noted the actions list.

## **20/06/12 Legal Compliance Report (October 2011 – March 2012)**

Howard Carter introduced the Legal Compliance Report for the period 1 October 2011 to 31 March 2012.

The Committee noted that benchmarking against other organisations on the outcomes of Employment Tribunals was undertaken and that TfL had a good record of successfully defending Employment Tribunal cases.

The Committee noted the report.

## **21/06/12 Half Yearly Fraud Report**

Alan Day introduced this report, which provided a summary of the work undertaken by the Fraud Team for the second half of 2011/12.

**The Committee noted the report.**

## **22/06/12 National Fraud Initiative Update**

Stephen Critchley introduced the briefing on the National Fraud Initiative exercise for 2010/11, which provided an update on progress with the issues raised by the exercise.

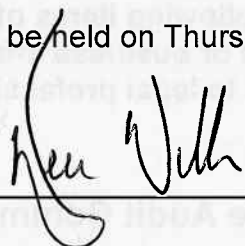
The final outstanding issues would be completed and the exercise closed.

**The Committee noted the paper.**

## **23/06/12 Date of Next Meeting**

The next meeting would be held on Thursday 4 October, 2012 at 10.00am.

Chair:



Date:

4 Oct. 2012