

Transport for London

Minutes of the Audit and Assurance Committee

Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
10.00am, Tuesday 11 October 2016

Members

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

Present

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| Sarah Bradley | Group Financial Controller |
| Peter Blake | Director of Service Operations (Minute Reference 47/10/16) |
| Michael Bridgeland | Head of TfL Project Assurance |
| Howard Carter | General Counsel |
| Michele Hanson | Chief Information Security Officer (Minute Reference 53/10/16) |
| Ian Nunn | Chief Finance Officer |
| Neil Perrins | Head of Financial Planning and Analysis |
| Clive Walker | Director of Internal Audit |

In Attendance

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| Karl Havers | Audit Partner, EY |
| Caroline Mulley | Audit Senior Manager, EY |
| Sue Riley | Secretariat Officer |

39/10/16 Apologies for Absence

An apology for absence was received from Dr Nelson Ogunshakin OBE. The Chair welcomed the new Committee Members, and attendees introduced themselves.

40/10/16 Declarations of Interest

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

41/10/16 Minutes of the Meeting Held on 14 June 2016

The minutes of the meeting held on 14 June 2016 were approved as a correct record and signed by the Chair.

42/10/16 Matters Arising and Actions List

There were no outstanding actions.

The Actions List was noted.

43/10/16 Annual Audit Letter

Karl Havers presented the Annual Audit Letter summarising the conclusions on the audit of the Statement of Accounts and the Value for Money judgement. He confirmed that EY had issued a clean opinion on TfL's Whole of Government Accounts return.

Due to the size of the organisation, TfL was one of the few local authority bodies which had a material impact on the Whole of Government Accounts return.

It was agreed that an induction session be held to provide Committee Members with an opportunity to familiarise themselves with key audit and assurance matters.

[Action: Secretariat]

Members were informed of EY's risk based approach when approaching the annual audit.

The Committee noted the paper.

44/10/16 External Audit Plan TfL, TTL and Subsidiaries – Year Ending 31 March 2017

Karl Havers presented EY's External Audit Plan for TfL, Transport Trading Limited (TTL) and its subsidiaries for the year ending 31 March 2017.

The list of financial statement risks was highlighted.

The risk based approach to audit planning was set out in the paper. The identified risks were consistent with the previous year, except for the inclusion of Highways Network Assets, which was a result of changes to the CIPFA Code of Practice and the new requirement to hold such assets at depreciated replacement cost. This accounting change was expected to have a material impact on TfL's financial statements. EY used TfL's Risk Register, review of Internal Audit reports, discussions at Committee and any changes to accounting standards to inform the Plan.

The explanation of how TfL subsidiaries were treated in the accounts and the governance and assurance arrangements would be included as part of Members' induction. Sarah Bradley updated the Committee on how recent changes to accounting standards allowed TfL to apply for certain exemptions.

EY had adjusted its level of performance materiality from 50 per cent in the first year to 75 per cent this year, which reflected their confidence in TfL's control environment.

The Committee noted the paper.

45/10/16 EY Report on Non-Audit Fees for Months Ended 30 September 2016

Ian Nunn introduced the report on fees billed by EY for non-audit services.

It was noted that fees should always be agreed in advance with the External Auditors and managed within a clear budget.

The Committee noted the report.

46/10/16 EY Review of Internal Audit of Garden Bridge Procurements

Karl Havers presented the paper setting out the findings from the EY review of the audit carried out by TfL's Internal Audit of the procurements of design and development services in relation to the Garden Bridge.

EY's review supported the overall findings from the internal audit but had noted some additional points that could have been included in Internal Audit's memorandum. EY also noted some areas where the documentation of the audit file could have been improved.

Internal Audit's usual approach was to review significant procurements on a real time basis at key stages in the process, such as the issuing of Official Journal of the European Union tenders. These audits did not, typically, find similar issues to those found on the Garden Bridge procurements. Internal Audit planned to review a number of completed procurements during 2016/17 to ensure that good practice was being adhered to across the organisation and to raise awareness amongst the Commercial team of the importance of robust procedures.

As part of EY's Value for Money assessment it had decided to audit a number of other projects and confirmed that no issues came about, and that an unqualified VFM conclusion was issued as a result.

The process for validating internal audit reports was described to Members and was standard practice. The Chair stressed the importance of ensuring that draft reports were factually correct before being formally issued.

TfL had accepted the findings and management actions of the EY report and this had been shared with the full Internal Audit team and would be discussed at sectional meetings within the department.

The Committee noted the paper.

47/10/16 Management Actions Report

Clive Walker presented the report informing the Committee of those recommendations to management which have not been actioned and are more than 60 days overdue.

Internal audit reports issued include agreed management actions with defined owners and due dates. Internal Audit followed up audit actions to ensure that they were completed.

Where management actions had not been completed more than 60 days after the due date, the relevant Director was invited to attend the Committee meeting to answer any questions.

Peter Blake, Director of Service Operations, Surface Transport was present in relation to two outstanding actions that were more than 90 days overdue, which related to performance of contractor competence checks in London River Services and Dial-a-Ride. The Committee was assured that work was now in hand to carry out these checks and would be completed shortly.

The Committee noted the report.

48/10/16 Internal Audit Quarter 1 Report 2016/17

Clive Walker introduced the report setting out the audit work completed in Quarter 1 of 2016/17, the work in progress at the end of the quarter, and the work planned for Quarter 2 of 2016/17.

One report with a "poorly controlled" conclusion had been issued with regard to software licensing.

Areas identified for auditing were based on TfL's Strategic Risks and consultation with senior management across the organisation. The Internal Audit Plan was then drafted and consulted on widely, including at Operating Boards and Executive Committee meetings, prior to being presented to the Audit and Assurance Committee for approval.

The Chair sought confirmation that pan TfL work was also carried out.

Members would discuss how best information on the Internal Audit quarterly reports could be presented at the induction session for Committee Members.
[Action: Howard Carter]

It was agreed future reports include the reasons for audits cancelled and postponed.
[Action: Clive Walker]

The Committee noted the report.

49/10/16 Local Audit and Accountability Act 2014 – Appointment of External Auditors

Howard Carter and Sarah Bradley presented the paper updating the Committee on changes to the arrangements for appointing external auditors for TfL and its subsidiaries. Karl Havers and Caroline Mulley declared an interest at this point as representatives of EY.

The Members were keen that a GLA Group approach was taken to ensure greatest efficiency. The GLA had yet to take a decision on its favoured option and issues of independence and practicalities were also factors.

The Committee approved the proposed arrangements for establishment of a new, independent Audit Advisory Group, subject to a discussion with the rest of the

GLA Group, with responsibility for the selection and appointment of the external auditor to TfL and its subsidiaries commencing with the audit of the 2018/19.

50/10/16 Crossrail Audit Committee

Clive Walker introduced the update on matters discussed at the Crossrail Audit Committee.

The Committee noted the paper.

51/10/16 Crossrail Update

Ian Nunn introduced the update on the Crossrail Project.

The TfL Board had agreed at its last meeting to appoint the Managing Director, London Underground, as TfL's Non-Executive Director to the Crossrail Board, which would ensure that the transition phase of Crossrail over to an operational railway was as smooth as possible.

The Committee noted the paper.

52/10/16 Effectiveness Review of the External Auditors

Karl Havers and Caroline Mulley left the meeting for the discussion of this item and the supplemental information on Part 2 of the agenda.

It was agreed that in future, Audit and Assurance Committee Members also be included as part the process of the assessment of auditor performance. **[Action: Ian Nunn]**

The Chair thanked EY for their good work in undertaking the annual external audit and there was a discussion of the detailed feedback set out in the paper.

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

53/10/16 Cyber Security Update

Michele Hanson presented the update on TfL's cyber security programme.

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

54/10/16 Independent Investment Programme Advisory Group – Review

In accordance with Section 100(B)(4) of the Local Government Act 1972, the Chair agreed to accept this report as an item of urgent business on the grounds that the Board's decision to carry out a review of TfL's external project assurance must be undertaken as soon as possible.

Ian Nunn introduced the paper proposing a review of the role of TfL's Independent Programme Advisory Group (IIPAG) and proposed Terms of Reference for such a review.

The review had arisen out of a discussion at the last meeting of the Finance and Policy Committee. A new IIPAG Chair needed to be appointed and it was considered timely to review the operation and role of IIPAG to ensure best value.

The Committee noted the paper and endorsed the Terms of Reference for the review of the role of TfL's Independent Investment Programme Advisory Group.

55/10/16 Date of Next Meeting

The next meeting would be held on Tuesday 14 March 2017 at 10.00am.

56/10/16 Exclusion of Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 and 7 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the exempt information in relation to the items on: Effectiveness Review of the External Auditor and Cyber Security Update.

The meeting closed at 12.15pm.

Members attended an informal Risk Workshop session at the close of the meeting.

Chair: Amenfmeel

Date: 14/3/17