

Board

**Transport
for London**



Date: 5 February 2014

Item 14: Report of the meeting of the Audit and Assurance Committee held on 18 December 2013

This paper will be considered in public

1 Summary

- 1.1 To report to the Board on the meeting of the Audit and Assurance Committee held on 18 December 2013.

2 Recommendation

- 2.1 That the Board note the report.

3 Background

- 3.1 The main matters considered by the Committee were:

- (a) External Audit Plan TfL, TTL and Subsidiaries – Year Ending 31 March 2014;
- (b) KPMG Report on Non Audit Fees for Six Months Ended 30 September 2013;
- (c) Management Actions Report;
- (d) Internal Audit Quarter 2 Report 2013/14;
- (e) Internal Audit Strategy 2013;
- (f) Changes in Legislation and Accounting Standards Impacting on TfL;
- (g) Update on the Procurement of External Audit Services;
- (h) Strategic Risk Management Quarter 2 2013/14;
- (i) National Fraud Initiative 2012/13 Update;
- (j) Half Yearly Fraud Report 2013/14;
- (k) Personal Data Disclosure to the Police and Other Law Enforcement Agencies; and
- (l) Legal Compliance Report (1 April 2013 – 30 September 2013).

4 Issues Discussed

External Audit Plan TfL, TTL and Subsidiaries – Year Ending 31 March 2014

- 4.1 The Committee received a report setting out KPMG's plan for the audit of the financial statements of Transport for London, Transport Trading Limited and its subsidiaries for the year ending 31 March 2014.
- 4.2 The Committee noted that the External Auditors' fees had reduced by 12 per cent year on year.

KPMG Report on Non Audit Fees for Six Months Ended 30 September 2013

- 4.3 The Committee noted the report of fees billed by KPMG for non audit services.

Management Actions Report

- 4.4 The Committee noted that there were no management actions more than 60 days overdue and welcomed the continued good practice in this area.

Internal Audit Quarter 2 Report 2013/14

- 4.5 The Committee considered a report on audit work completed in the second quarter of 2013/14 and the work in progress and planned for Q3 2013/14.
- 4.6 It was reported that the Senior Audit and Investigations Manager was retiring. His role was not being replaced and the functions were being transferred to different parts of the Internal Audit team.

Internal Audit Strategy 2013

- 4.7 The Committee noted the Internal Audit Strategy 2013, and that an update on delivery would be included in the Internal Audit Annual Report presented to the Committee meeting of 18 June 2014.

Changes in Legislation and Accounting Standards Impacting on TfL

- 4.8 The Committee noted the paper updating Members on the Group's critical accounting policies to be applied in deriving the form and content of TfL's Statement of Accounts for the year ending 31 March 2014.
- 4.9 Changes in the accounting for pension plans would have the effect of increasing the net interest charge in TfL's financial statements, although there would be no impact on the defined benefit obligation recognised on the balance sheet. In addition, more extensive disclosures would be required.
- 4.10 There had been a change in accounting for borrowing costs where the construction of capital assets was funded by borrowing. TfL was now required to capitalise interest on all such projects, and not only those that commenced after 2009. This would reduce the net interest charge in TfL's financial statements and increase additions to property, plant and equipment.

- 4.11 It was noted that this would impact Crossrail, where financing costs would be capitalised for the first time. This was, however, an accounting change with no impact on cash flows and the total cost of the project would be unaffected.
- 4.12 Both these changes of accounting policy were treated as prior year adjustments with restatement of prior year comparatives.

Update on the Procurement of External Audit Services

- 4.13 The Committee considered the paper updating Members on the proposed tendering of external audit services for Transport Trading Limited and its subsidiaries.
- 4.14 The Committee was advised that the Audit Commission would not be extending its procurement process to allow the TTL Group the ability to call off against the Commission contract, and that it was therefore necessary to run a separate tender. The overall objective was to achieve value for money in the audit arrangements for the whole Group.

Strategic Risk Management Quarter 2 2013/14

- 4.15 The Committee received an update on the status of TfL's Non Project Strategic Risks and proposed mitigations at the end of Quarter 2, as reflected in the Strategic Risk Register.
- 4.16 It was agreed that further clarity on the risks associated with the pensions deficit be included in future reports, including mitigation measures and timescales.
- 4.17 The Chair congratulated officers on the work completed in this area.

National Fraud Initiative 2012/13 Update

- 4.18 The Committee noted the update on the National Fraud Initiative exercise for 2012/13.
- 4.19 It was agreed that information on the controls in place for issuing taxi driver licences, with particular regard to checking eligibility to work in the UK, would be reviewed and reported back to the next meeting.
- 4.20 Members requested that Internal Audit carry out a review of the Blue Badge process and the outcome would be reported to the Surface Transport Panel, if appropriate.

Half Yearly Fraud Report 2013/14

- 4.21 The Committee received a report on the half yearly fraud report providing a summary of the work undertaken by the Fraud Team for the first half of 2013/14 (periods 1 to 6).
- 4.22 It was agreed that officers would investigate penalties for fraudulent Ticket Stop Agencies and for criminal records to be shared with other ticket shop suppliers such as the National Lottery.

Personal Data Disclosure to the Police and Other Law Enforcement Agencies

- 4.23 The Committee noted an update on the operation of TfL's policy on disclosure of personal data to the police and other statutory law enforcement agencies.

Legal Compliance Report (1 April 2013 – 30 September 2013)

- 4.24 The Committee considered a report summarising information for each TfL Directorate included in the Legal Compliance Report for the period 1 April 2013 to 30 September 2013.
- 4.25 Further information would be provided on one case referred to in the Employment Tribunal data.

List of appendices to this report:

None

List of Background Papers:

Papers for the meeting of the Audit and Assurance Committee held on 18 December 2013.

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