

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: ANNUAL REVIEW OF AUDIT POLICIES

DATE: 29 SEPTEMBER 2009

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to request the Audit Committee to review the Internal Audit Charter and the policies on Anti-Fraud and Corruption and External Audit Services and approve the proposed changes.
- 1.2 The Anti-Fraud and Corruption policy will be submitted to the Board for approval. All three policies will need to be accepted by the Audit Committees of Crossrail Limited and London Transport Museum Limited.

2 BACKGROUND

- 2.1 The charter and policies are documents that require approval by the Audit Committee and, in the case of the Anti-Fraud and Corruption policy, by the Board. It has been agreed that they should be subject to annual review rather than ad hoc review as and when they require updating. All three have been in issue for some time and are due for review and updating. Track changed versions of all three are attached as Appendices 1, 2 and 3 and the significant changes are explained below.

3 INTERNAL AUDIT CHARTER

- 3.1 The Institute of Internal Auditors Standards and the Code of Practice for Internal Audit in Local Government in the UK require there to be an Internal Audit Charter which sets out the scope, role and responsibilities of the Internal Audit function. TfL's Internal Audit Charter was first published in 2003 and has been updated once since then. There are no substantive changes to the current document but proposed amendments have been made to bring it into line with current regulations and working practices.

4 ANTI-FRAUD CORRUPTION POLICY

- 4.1 The Audit Commission expects organisations to have an anti-fraud and corruption policy in place to demonstrate pro-activity in addressing fraud against the public purse. The policy was first established in 2003 and has not been updated since. The proposed amendments reflect the current format for policies, changes to job titles, reference to the Fraud Act 2006, updated references to other policies and procedures and improved cross-referencing to the fraud protocol which sets out how investigations are undertaken.

5 EXTERNAL AUDIT SERVICES POLICY

- 5.1 The External Audit Services Policy was established in 2003 to apply the Audit Commission's rules on independence for the external auditors appointed by them to TfL Corporate to all of the subsidiary companies in TfL for consistency. KPMG, as auditors of the whole group, report on their compliance with this policy twice a year. The policy has been updated to reflect changes in the Audit Commission rules.

6 RECOMMENDATION

- 6.1 The Audit Committee is asked to APPROVE the amendments proposed to the attached policies and RECOMMEND that the Board approves the Anti-Fraud and Corruption Policy.

7 CONTACT

- 7.1 Contact: Mary Hardy, Director of Internal Audit
Email: MaryHardy@tfl.gov.uk
Phone: 020 7126 3022



Transport for London

Internal Audit Charter

This document sets out the objectives, authority and responsibilities of Transport for London's Internal Audit Department. It was approved by the Audit Committee on ~~29~~ September 2009.

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- Deleted: Objectives

Vision and Mission

The vision of Internal Audit is World Class assurance and advice for a World Class transport system.

The mission of Internal Audit is:

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- To provide independent assurance and advice to the TfL Board and Audit Committee on all aspects of corporate governance across the TfL Group.
- To provide advice and assistance to senior management in carrying out their internal control responsibilities including matters of risk, policy, procedure and compliance.

The mission is supported by the Institute of Internal Auditors' definition of Internal Auditing:

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'Internal auditing is a independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

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Authority

Internal Audit derives its authority primarily from the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 which established a statutory requirement for local authorities to have an internal audit function. It also derives authority from the Board and Audit Committee to whom it has open access.

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The Director of Internal Audit reports to the General Counsel and has access, when required, to the Commissioner and the Chair of the Audit Committee. In accordance with Standing Orders s, the Director of Internal Audit is entitled to report directly to the

Appendix 1

Board or Chair or raise any matter within their professional jurisdiction and the appointment and dismissal of the Director of Internal Audit are reserved to the Board in order to ensure organisational independence.

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The Director of Internal Audit presents reports to the Audit Committee on audit plans and resources, the results of audit and counter fraud work, and is required to deliver an annual audit opinion on the control environment.

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The Audit Committee, on behalf of the Board, reviews the authority, scope of work and resources of Internal Audit on a regular basis to confirm these remain appropriate.

The Chief Finance Officer has specific responsibilities set out in the Local Government Act 1972 and the GLA Act 1999 for the probity of financial systems. He/she will derive assurance on the overall effectiveness of internal control systems from Internal Audit's programme of work, including the results of fraud investigations, but may, from time to time, look to Internal Audit to perform specific reviews to enable him/her to fulfil his/her responsibilities.

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Deleted: The equivalent for TfL is the Section 127 officer under the GLA Act 1999.

For the purpose of its work, Internal Audit has unrestricted access at any time to all the records, personnel, property and operations of TfL. In the case of the investigation of actual, alleged or suspected criminal wrongdoing this access includes the right to search for and retain any item belonging to TfL, including, but not restricted to, data (including data pertaining to individuals), assets and property, which may be needed as evidence in any consequent criminal, civil or disciplinary action which may be taken.

Internal Audit has responsibility for the safekeeping and confidentiality of all information or other items retained or provided, in particular in respect of individual members of staff.

Responsibilities

Internal Audit has responsibility for providing assurance in respect of corporate governance and risk management across the whole of the TfL Group and including its partnership arrangements. Partnership arrangements, for these purposes, are deemed to include any arrangement, contractual or otherwise, whereby TfL works with a third party to deliver services or products in support of its objectives.

In fulfilling this responsibility Internal Audit will:

- Develop an annual audit plan covering the whole system of internal controls in discussion with senior management and taking into account TfL's risks, major projects, significant areas of change and specific management concerns. The plan will be confirmed on a quarterly basis to ensure it remains relevant and timely.

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Appendix 1

- Provide a professional investigation service to enquire into and report on actual/potential crimes and occurrences of fraud, corruption and related offences.
- Provide a fraud detection capability by utilising forensic data analytics to identify risk areas and, in addition, use this work to direct fraud prevention and awareness activities.
- Ensure adequate and appropriately skilled resources are available to deliver the department's responsibilities. The skill sets of existing staff will be developed where appropriate. Specialist skills may be brought in from outside the department.
- Deliver the audit plan in accordance with the methodologies set out in the Audit Manual which will be continuously reviewed and updated. Internal Audit will operate in accordance with [the Code of Ethics and Standards](#) published by the Institute of Internal Audit and the Chartered Institute of Public Finance and Accountancy (CIPFA) to ensure the highest quality of professional delivery and in accordance with best practice as promulgated from time to time by the Audit Commission.
- Deliver fraud investigations in accordance with the methodologies set out in the Fraud Protocol and the Fraud Manual, which will be continuously reviewed and updated.
- Seek feedback at the end of each major assignment to enable continuous quality improvement.
- [Maintain a quality assurance and improvement programme that covers all aspects of internal audit activity.](#)
- Issue a formal audit report at the end of each audit assignment after full discussion with the management of the area audited. The report will be issued to relevant members of management and copied to the General Counsel, Chief Finance Officer and the external auditors. The results of all reports issued will be summarised for the Audit Committee regularly throughout the year in accordance with TfL's disclosure policy.
- Issue a report at the end of each fraud investigation to local management advising them of the outcome of the investigation and, as necessary, advising on the courses of action available in respect of disciplinary, civil or criminal action. An internal control report will also be issued for standard audit report circulation making recommendations as to how to strengthen the control environment. In certain circumstances it may be appropriate for a substantive audit to be carried out on the broader control implications across TfL.
- Follow up audit findings to ensure weaknesses identified in internal controls have been effectively addressed.

Appendix 1

- Develop a balanced scorecard with key performance indicators (KPIs) for the Internal Audit Department and report against this to the Audit Committee regularly throughout the year.
- Liaise with the external auditors on a regular basis to co-ordinate planning and share results of audit work in accordance with the External/Internal Audit Protocol.
- Benchmark with the internal audit and fraud investigation departments of a variety of other organisations – both public and private sector – to ensure the audit approach employed within TfL is “best in class”.
- Maintain a close working relationship and interchange of information with the Community Safety, Enforcement and Policing Directorate within Surface Transport, the British Transport Police, the Metropolitan Police and other appropriate law enforcement and investigative agencies.
- Prepare an annual report and opinion for presentation to the Audit Committee as part of its consideration of the effectiveness of the control environment and to support the Annual Governance Statement which incorporates the Statement of Internal Control.

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Management’s responsibility

Internal Audit is a review and support activity, which does not relieve management of its responsibility for identifying, evaluating and managing risk. Internal Audit will make suggestions for the improvement of internal control, but it is management’s decision and responsibility to implement cost effective and appropriate actions to address the weaknesses identified. Similarly it is management’s decision and responsibility to determine whether disciplinary action or criminal or civil proceedings should be initiated following a fraud investigation.

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Transport for London

ANTI-FRAUD AND CORRUPTION POLICY

Issue date: 22 October 2009

Effective: 22 October 2009

This supersedes any previous policy

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1. Introduction

1.1 Transport for London is responsible for providing an integrated, safe, high quality and efficient transport system for London. To achieve this TfL expects the highest standards of conduct, performance and integrity from its employees. The standards required are set out in the Code of Conduct and Business Ethics policies which are published to all staff both permanent and temporary and equally apply to anyone engaged through a third party or otherwise working on TfL's behalf and on TfL premises.

1.2 Because of TfL's public sector status, there is also a constant requirement to ensure the appropriate use and safeguarding of public funds.

1.3 All TfL employees, consultants and agents must at all times safeguard the resources for which they are responsible. Fraud and corruption are ever present threats to these resources which may include material, property, plant, equipment, cash, staff time, software, confidential information and intellectual property.

1.4 The purpose of this policy is to outline the responsibilities of both senior management and staff for ensuring that appropriate actions are taken for the prevention and detection of fraud and corruption and to set out the procedures to be followed where fraud or corruption is detected or suspected.

2. Organisational scope

2.1 This policy applies to all bodies included in the TfL Group and

- To all TfL Board members and advisers
- To all TfL employees
- To all agency and consultancy staff and contractors not directly employed by TfL who undertake work on TfL's behalf.

3. Definitions

3.1 There is no standard definition of "Fraud". It is a general term used in this policy to refer to the use of deception with the intention of making a gain for oneself or others or causing loss or risk of loss to another. The gain or loss does not actually have to take place as long as the intention is there. The Fraud Act 2006 provides for a general offence of fraud with three ways of committing it, which are by false representation, by failing to disclose information and by abuse of position. It creates new offences of obtaining services dishonestly and of possessing, making and supplying articles for use in frauds.

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The title of the policy is the 'Anti Fraud and Corruption Policy'.¶

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Deleted: "Fraud" is a general term used in this policy to refer to the use of deception with the purpose of obtaining some kind of monetary or other advantage, avoiding an obligation or causing loss to another party. Fraud does not only relate to personal gain or advantage, but also to the misrepresentation of TfL's position to achieve similar ends. Attempted fraud is treated as seriously as accomplished fraud.¶

3.2 “Corruption” is the seeking, receiving or agreeing to receive gifts, loans, fees, rewards or advantage as an inducement to or reward for any member of staff for themselves or another person in connection with the performance of their duty. It also includes the person giving, providing or offering the inducement or reward.

4. Managing the Risk of Fraud and Corruption

4.1 As with any risk faced by the organisation, it is the responsibility of managers to ensure that fraud risk is adequately considered when preparing risk assessments in support of business plans, projects and other activities. In making this assessment it is important to consider the risk of fraud occurring rather than the actual incidence of fraud having occurred in the past. Once the fraud risk has been evaluated appropriate action should be taken to mitigate those risks on an ongoing basis.

4.2 Any changes in operations or the business environment must also be assessed to ensure any impacts which might increase the risk or otherwise change the risk of fraud and corruption are properly taken into account.

4.3 Good corporate governance procedures are a strong safeguard against fraud and corruption. Adequate supervision, scrutiny and healthy scepticism must not be seen as distrust but simply as good management practice shaping attitudes and creating an environment opposed to fraudulent activity.

4.4 Directors and management must set an example by refusing to endorse improper behaviour or “sharp practice” and are expected to deal swiftly and robustly with those who defraud the organisation or who are corrupt.

5. Dealing with Suspected Fraud and Corruption

5.1 Every member of staff has a responsibility to report details immediately to their employing manager if they suspect that fraud or corruption has been, is being or may be committed.

5.2 In exceptional circumstances staff members may not consider it appropriate to communicate concerns through normal management reporting channels. In such cases the individual should make their concerns known to a level of management above those to whom they would normally report. In circumstances where for a particular reason members of staff believe that they are unable to report their concerns even to the highest level of line management they should contact another member of the senior management

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¶ This policy applies to all TFL employees, consultants and agents and to all aspects of TFL's business and operations.¶

team, the Chief Finance Officer or the Director of Internal Audit. Staff members can also report concerns confidentially using the processes outlined in the TfL “Whistleblowing” policy under which they are provided with certain protections.

5.3 Directors and management may become aware of the possibility of fraud or corruption or attempted fraud or corruption through the incidence of unusual events or transactions as a result of specific management checks, or through notification from a third party. Where a manager becomes aware of evidence or suspicion of fraud or corruption from whatever source he or she must immediately inform the manager to whom he or she directly reports and the relevant Managing Director must be made aware of the situation.

Deleted: Reference should also be made to TfL’s “Whistleblowing; Public Interest Disclosure policy”.¶

5.4 Under no circumstances should any member of management or staff attempt to deal with the suspected fraud themselves. Nor should they attempt to interview implicated staff as this may jeopardise collection of evidence and subsequent opportunities for prosecution or recovery of assets. Once sufficient facts have been gathered to confirm the concern is valid, an immediate report must be made to either the Director of Internal Audit or the Senior Audit & Investigations Manager – Fraud & Security. An investigation will then be conducted by the Fraud Team in Internal Audit to investigate.

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5.5 It is recognised that, on occasions, suspicions of fraud or corruption may be groundless due to misunderstanding or circumstances. Accordingly initial inquiries carried out by the Fraud Team will be on a discreet basis. Conversely should the suspicions be justified then this approach will help to minimise the risk of loss of evidence. In any case the number of individuals who have knowledge of the circumstances will be kept to the minimum on a need to know basis.

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5.6 Where investigations reveal evidence of fraudulent or dishonest behaviour, corrupt practice or other culpable acts, TfL will take appropriate steps which may include disciplinary and/or legal action whether the persons are members of staff or external to TfL. Steps will also be taken to recover losses resulting from the fraud and a civil action against the perpetrator may be appropriate. Investigations will also consider whether there has been any culpable failure of supervision. Where this has occurred appropriate disciplinary action will be taken against those responsible.

5.7 The Fraud Team, Internal Audit will report the facts revealed during their investigations to management. It is, however, management’s decision and responsibility to determine whether disciplinary action or criminal or civil proceedings should be initiated. Support in making this decision will be provided by HR and TfL Legal and guidelines for the referral of cases to the police are contained in TfL’s Fraud Protocol.

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6. Reporting

6.1 At the conclusion of the investigation, the Fraud Team will produce a report for the management who were closely involved with the incident and this will be copied to the Managing Director. This report will give as much detail as possible surrounding the incident, in particular focussing on how the fraud occurred and what improvements need to be made to the control environment. Any significant failure of supervision or breakdown of stipulated controls must be rectified promptly. Any lessons learnt that have a wider applicability to other parts of TfL will be communicated to the Commissioner and Managing Directors by the Director of Internal Audit in order to mitigate the risk of similar occurrences elsewhere.

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6.2 The Senior Audit & Investigations Manager – Fraud & Security will prepare a periodic report for the Director of Internal Audit summarising investigation activity. The Director of Internal Audit will in turn periodically report to the Commissioner, Managing Directors, Chief Finance Officer and the Audit Committee.

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6.3 Throughout this reporting process, confidentiality will be paramount and most reporting will be at a summary level only.

7. Support and Advice

7.1 Support and advice can be obtained through speaking to your manager or by by emailing fraud@tfl.gov.uk. Alternatively contact the TfL Fraud Team (Auto: 63020)

8. Ownership

8.1 The Anti-Fraud & Corruption policy owner is General Counsel.

9. Approval and amendments

9.1 This policy was approved by the Board on 3 December 2003 and updated on 21 October 2009. Any amendments to this policy must be approved by the Board following review by the Audit Committee.

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9.2 The policy will be reviewed twelve months after approval.

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10. Related Documentation

TfL Code of Conduct
TfL Business Ethics Policy
TfL Whistleblowing Policy
TfL Internal Audit Charter
TfL Fraud Protocol

11. Custodian

11.1 All queries in relation to this policy should be directed to the Senior Audit & Investigations Manager – Fraud & Security, Internal Audit, 7th floor Windsor House, (Auto: 63018).

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General Counsel

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Transport for London

Policy on external audit services

1. Introduction

1.1 Under the local government regime applicable to TfL (including London Streets and the Public Carriage Office) responsibility for the appointment of TfL's external auditors lies with the Audit Commission. Under the Audit Commission's rules external auditors are appointed for an initial period of five years, although this term is extendable. Where a term is extended the Audit Commission requires the audit partner to rotate at least once in every five years and the audit manager to rotate at least once every seven years, in all but the most exceptional circumstances. The Audit Commission does rotate audits between suppliers from time to time to ensure that too close a relationship is not developed.

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1.2 The Audit Commission also imposes restrictions on the extent to which external auditors of local authorities are allowed to carry out non-audit work for an audit client. In particular, external auditors must seek Audit Commission approval to carry out non-audit work where the fees exceed the higher of £30,000 or 20% of the agreed audit fee. They also should not carry out work that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence, or might give rise to a reasonable perception that their independence could be impaired.

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1.3 None of the restrictions noted above are applicable to the external auditors of TTL or its subsidiaries ('TTL'), who are appointed in accordance with the Companies Act.

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1.4 The purpose of this policy is to ensure that a consistent approach is taken to the appointment of external auditors across all parts of the TfL Group.

2. Policy

2.1 Appointment and rotation of external auditors

2.1.1 As noted above, the Audit Commission appoints TfL's external auditors for a five-year term, although this may be extended. Whenever the Audit Commission indicates its intention to change TfL's auditors, TTL's directors should consider whether to initiate a tendering process for the audit of TTL. If the auditors of TTL have been in office for at least five years then a tendering process will automatically be considered. The directors may, of course, choose to retender the audit of TTL at any time. The Chief Finance Officer will be responsible for the tendering process and for recommending external auditors as a result of that process to the TTL Board.

2.1.2 In circumstances where TTL has retained the same auditors for a period of seven years the directors of TTL will, in accordance with this policy, require the Audit Partner and Manager to be rotated.

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2.1.3 The Terms of Reference of the TfL Audit Committee, as set out in TfL Standing Orders, require the Committee to review the performance of the external auditors following the completion of each statutory audit. This review will cover the performance of the external auditors of all parts of the TfL Group.

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2.1.4 Where issues are identified regarding the performance of the external auditors these will normally be addressed directly through communication between the Chief Finance Officer and the external audit partner. In cases, however, where the performance of the external auditor is considered to be seriously or consistently below standard the Audit Committee may request the Chief Finance Officer to take steps to remove the external auditors from office. Removal of TfL's auditors is not directly within the power of TfL Management, but can be influenced by submission of a written request to the Audit Commission. The auditors of TfL may be removed directly by the directors of those companies.

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2.2 Non audit work

2.2.1 Audit services are defined as follows:

- For TfL the services required to meet the Audit Commission Code of Practice requirements
- For TfL the work required to enable the external auditor to issue an audit opinion on the company's annual accounts in accordance with the Companies Act

2.2.2 External auditors, or any firm with which the auditor is associated, should not carry out work that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence, or might give rise to a reasonable perception that their independence could be impaired.

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 ¶
 Internal Audit work anywhere in the TfL Group¶
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 The development and implementation of systems or processes that they may, as external auditors, be required to audit¶
 Any other work that could lead to a conflict of interest with their external audit role

2.2.3 The Audit Committee will determine the threshold above which permission to perform non-audit work needs to be obtained from the Audit Committee. The maximum threshold for the TfL Group under the Audit Commission rules will be the higher of 20% of the audit fee, based on the total statutory audit fee proposed, or £30,000 (statutory audit services are, for TfL, services required to meet the Audit Commission's Code of Audit Practice requirements and, for TfL and its subsidiaries, services required to enable the external auditor to issue an audit opinion on the annual accounts in accordance with the Companies Act). For the avoidance of doubt, there will be no restriction to the level of non-statutory audit work (audit work performed outside the definition of statutory audit services, such as work on grant claims and returns where an audit certificate is required as a condition of the grant scheme) that the external auditors can undertake.

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2.2.4 The external auditors may decide to bid for non-audit work that is put out for tender bearing in mind the financial threshold and approval process set in 2.2.3. They are responsible for ensuring they do not bid for proscribed activities.

2.2.5 It is recognised that there will be some items of non-audit work that the external auditors are best placed to deliver because of the knowledge or experience gained through the audit process. Any decision to award work to the external auditors without going out to tender must be taken by the relevant Managing Director, with the agreement of the Chief Finance Officer and in accordance with TfL's 'single source procurement' rules.

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2.2.6 Where the award of work under 2.2.5 falls within the financial threshold set in 2.2.3, the

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Managing Director and Chief Finance Officer may, at their discretion, discuss the award with the Chair of the Audit Committee.

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2.2.7 Where the award of work under 2.2.5 exceeds the financial threshold set in 2.2.3, or takes the total of non-audit work over the limit, the Chief Finance Officer must consult with the Chair of the Audit Committee who will decide whether the Audit Committee needs to approve the appointment in advance of the work commencing.

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2.2.8 The external auditors of TfL Corporation must, in addition, seek the approval of the Audit Commission to carry out any non-audit work in TfL that will exceed the higher of £30,000 or 20 per cent of the total agreed audit fee for the TfL Corporation only.

2.2.9 The external auditors will be responsible for maintaining detailed records of all non-audit work undertaken and for ensuring they do not undertake any of the work proscribed above. They will be responsible for advising the relevant **Managing Director**, if a request for them to undertake non-audit work will result in the limits set by the Audit Committee being exceeded. All non-audit work will be reported six monthly to the Audit Committee by the external auditors as a standing agenda item.

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3. Responsibilities

3.1 **Managing Directors** are responsible for

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- ensuring single source procurement rules are followed when the external auditors are awarded non-audit work on the grounds they are best placed to do the work
- Obtaining the agreement of the Chief Finance Officer when they wish to award non-audit work to the external auditors which will result in the financial limits set by the Audit Committee being exceeded

3.2 The external auditors are responsible for

- maintaining detailed records of all non-audit work undertaken
- ensuring they do not undertake any proscribed work
- advising the relevant Chief Officer if a request for them to undertake non-audit work will result in the limits set by the Audit Committee being exceeded
- reporting all non-audit work to the Audit Committee every six months

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3.3 The Chief Finance Officer is responsible for:

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- **Recommending** the appointment of external auditors for TTL
- Liaising as appropriate with the Audit Commission on the appointment and performance of the external auditors for TfL
- Ensuring that the Audit Committee is provided with the information that it needs to carry out its annual review of the performance of the external auditors.
- Reviewing all proposals to engage external auditors to carry out non-audit work and liaising with the Chair of the Audit Committee as required by this policy

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