

## Agenda

**Meeting: Audit and Assurance Committee**

**Date: Tuesday 3 December 2019**

**Time: 2.00pm**

**Place: Conference Rooms 1&2,  
Palestra, 197 Blackfriars Road,  
London, SE1 8NJ**

### Members

Anne McMeel (Chair)

Dr Lynn Sloman (Vice-Chair)

Kay Carberry CBE

Dr Mee Ling Ng OBE

Dr Nelson Ogunshakin OBE

Copies of the papers and any attachments are available on [tfl.gov.uk How We Are Governed](http://tfl.gov.uk/How-We-Are-Governed).

This meeting will be open to the public, except for where exempt information is being discussed as noted on the agenda. There is access for disabled people and induction loops are available. A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on [www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf](http://www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf).

### Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Sue Riley, Secretariat Officer; telephone: 020 7983 4392; email: [SueRiley@tfl.gov.uk](mailto:SueRiley@tfl.gov.uk).

For media enquiries please contact the TfL Press Office; telephone: 0845 604 4141; email: [PressOffice@tfl.gov.uk](mailto:PressOffice@tfl.gov.uk)

Howard Carter, General Counsel  
Monday 25 November 2019

**Agenda  
Audit and Assurance Committee  
Tuesday 3 December 2019**

**1 Apologies for Absence and Chair's Announcements**

**2 Declarations of Interests**

General Counsel

**Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.**

**Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.**

**3 Minutes of the Meeting of the Committee held on 26 September 2019  
(Pages 1 - 6)**

General Counsel

**The Committee is asked to approve the minutes of the meeting of the Committee held on 26 September 2019 and authorise the Chair to sign them.**

**4 Matters Arising and Actions List (Pages 7 - 10)**

General Counsel

**The Committee is asked to note the updated actions list.**

**5 Independent Investment Programme Advisory Group Quarterly Report (Pages 11 - 14)**

Director of Risk and Assurance

**The Committee is asked to note the report and the supplementary information on Part 2 of the agenda.**

## **External Audit Items**

**6 External Audit Plan for TfL, TTL and Subsidiaries - Year Ending 31 March 2020** (Pages 15 - 58)

Chief Finance Officer

**The Committee is asked to note the plan.**

**7 EY Report on Non-Audit Fees for Six Months Ended 30 September 2019** (Pages 59 - 62)

Chief Finance Officer

**The Committee is asked to note the paper.**

## **Audit, Assurance and Risk Items**

**8 Risk and Assurance Quarter 2 Report 2019/20** (Pages 63 - 98)

Director of Risk and Assurance

**The Committee is asked to note the report and the supplementary information on Part 2 of the agenda.**

**9 Audit of Tram Operations Limited Fatigue Management - To Follow**

Director of Risk and Assurance

**The Committee is asked to note the paper.**

## **Accounting and Governance**

**10 Procurement and Supply Chain - Addressing the Findings of Internal Audit and Ernst & Young** (Pages 99 - 100)

Chief Finance Officer

**The Committee is asked to note the paper.**

**11 Critical Accounting Policies** (Pages 101 - 104)

Chief Finance Officer

**The Committee is asked to note the paper.**

**12 Cyber Security Update** (Pages 105 - 106)

Director of Strategy and Chief Technology Officer

**The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

**13 Strategic Risk Update - Significant Technology Failure (SR11)** (Pages 107 - 108)

Director of Strategy and Chief Technology Officer

**The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

**14 Strategic Risk Update - Transformation (SR18)** (Pages 109 - 112)

Transformation and Business Services Director

**The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

**15 Register of Gifts and Hospitality for Members and Senior Staff** (Pages 113 - 120)

General Counsel

**The Committee is asked to note the paper.**

**16 Legal Compliance Report (1 April - 30 September 2019)**  
(Pages 121 - 144)

General Counsel

**The Committee is asked to note the paper.**

**17 Member suggestions for future agenda discussions** (Pages 145 - 148)

The Committee is asked to note the forward programme and is invited to raise any suggestions for future discussion items for the forward programme and for informal briefings.

**18 Any Other Business the Chair Considers Urgent**

The Chair will state the reason for urgency of any item taken.

**19 Date of Next Meeting**

Wednesday 18 March 2020 at 10.00am

**20 Exclusion of Press and Public**

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

**Agenda Part 2**

Papers containing supplemental confidential or exempt information not included in the related item on Part 1 of the agenda.

**21 Independent Investment Programme Advisory Group Quarterly Report** (Pages 149 - 152)

Director of Risk and Assurance

**Exempt supplementary information on Part 2 of the agenda.**

**22 Risk and Assurance Quarter 2 Report** (Pages 153 - 166)

Director of Risk and Assurance

**Exempt supplementary information relating to the item on Part 1.**

**23 Cyber Security Update** (Pages 167 - 178)

Director of Strategy and Chief Technology Officer

**Exempt supplemental information relating to the item on Part 1.**

**24 Strategic Risk Update - Significant Technology Failure (SR11)**  
(Pages 179 - 184)

Director of Strategy and Chief Technology Officer

**Exempt supplemental information relating to the item on Part 1.**

**25 Strategic Risk Update - Transformation (SR18)** (Pages 185 - 190)

Transformation and Business Services Director

**Exempt supplemental information relating to the item on Part 1.**

## 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, Thursday 26 September 2019

#### Members

|                  |            |
|------------------|------------|
| Anne McMeel      | Chair      |
| Dr Lynn Sloman   | Vice Chair |
| Kay Carberry CBE | Member     |

#### Executive Committee

|                 |                       |
|-----------------|-----------------------|
| Howard Carter   | General Counsel       |
| Simon Kilonback | Chief Finance Officer |

#### Staff

|                   |  |
|-------------------|--|
| Richard Bevins    | Head of Information Governance, General Counsel (Minute Reference 52/09/19)                            |
| Tanya Coff        | Divisional Finance and Procurement Director, London Underground  |
| Jamie Cole        | Business Planning and Efficiencies Manager, Surface Transport (Minute reference 46/09/19)              |
| Siwan Hayward OBE | Director of Compliance, Policing and On-Street Services, Surface Transport (Minute Reference 46/09/19) |
| Lorraine Humphrey | Head of Project Assurance, General Counsel   |
| Nico Lategan      | Head of Enterprise Risk, General Counsel   |
| Richard Mullings  | Head of Fraud, General Counsel   |
| Dili Origbo       | Head of Internal Audit, General Counsel  |
| Rachel Shaw       | Head of External Reporting, Finance  |
| Clive Walker      | Director of Risk and Assurance, General Counsel  |
| Sue Riley         | Secretariat  |

#### Also In Attendance

|              |  |
|--------------|--|
| Karl Havers  | Partner, Ernst & Young (EY)  |
| Joanne White | Independent Investment Programme Advisory Group Member (Minute Reference 45/09/19) |

#### 41/09/19 Apologies for Absence and Chair's Announcements

Apologies for absence were received from Dr Nelson Ogunshakin OBE and Dr Mee Ling Ng OBE. Tony King, Finance Director, Major Projects and statutory Chief Finance Officer, was also unable to attend.

Safety is paramount to TfL and accordingly, at the start of all meetings attended by Board Members, they were asked to raise any safety issues relating to items on the agenda or in general.

The Committee expressed its condolences to those affected by the two recent fatalities on the TfL network – the tragic death of Christian Tuvi at Waterloo London Underground Station and Tashan Daniel at Hillingdon London Underground Station. Both were currently subject to investigations by the British Transport Police and Office of Rail and Road and would be reported to the Safety, Sustainability and Human Resources Panel in the appropriate manner.

Kay Carberry CBE also highlighted a recent road fatality which would also be discussed at a future meeting of the Safety, Sustainability and Human Resources Panel.

#### **42/09/19 Declarations of Interest**

Members confirmed that their declarations of interests, as published on [tfl.gov.uk](http://tfl.gov.uk), were up to date and there were no interests that related specifically to items on the agenda.

#### **43/09/19 Minutes of the Meeting Held on 10 June 2019**

The minutes of the meeting held on 10 June 2019 were approved as a correct record and signed by the Chair.

#### **44/09/19 Matters Arising and Actions List**

The Chair advised Members that Crossrail Limited had agreed to a TfL finance representative being present at the Crossrail Audit and Assurance Committee meetings and this action was now complete (32/06/19).

**The Committee noted the Actions List.**

#### **45/09/19 Independent Investment Programme Advisory Group Quarterly Report**

Joanne White introduced the IIPAG quarterly report and workplan. One IIPAG recommendation had been made for this quarter.

The importance of including value for money in any business case was emphasised and work on improving performance tracking against baseline data was also being developed.

Lorraine Humphrey presented the management response. As part of TfL's Transformation programme, a single sponsorship team was being created, which would help with the development of a more consistent approach to housing and economic benefits across the business.

Due to the reduction in grant funding available, TfL was re-mapping its approach to the Business Planning process, based on a 25 year strategy, including rolling stock, renewals and civil infrastructure.

**The Committee noted the report and the supplementary information on Part 2 of the agenda.**



## **46/09/19 Pan-TfL Revenue Protection Programme**

Siwan Hayward OBE and Jamie Cole presented an overview of the programme of activity being undertaken to reduce the amount of revenue lost to fare evasion and ticket fraud.

Fare evasion rates in London compared favourably with other world cities. A new methodology was being applied to better understand the problem and help reduce losses from fare evasion, whilst managing the impact on front line staff in terms of safety and workplace violence. Mitigation measures included designing out opportunity for fraud, greater use of technology and a more intelligence led approach. Staff were working closely with the Risk and Assurance team to share knowledge and expertise.

Staff were encouraged to report all forms of work place violence as it was believed there was considerable under reporting.

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

## **47/09/19 Annual Audit Letter**

Karl Havers presented the Annual Audit Letter summarising the conclusions of the Annual Statement of Accounts and Value for Money. No matters had been identified in the report.

EY had issued a qualified opinion on Value for Money in relation to procurement processes. A number of actions were being taken to address this issue and a report would be submitted to the next meeting.

**[Action: Simon Kilonback]**

**The Committee noted the letter.**

## **48/09/19 Risk and Assurance Quarter 1 Report 2019/20**

Clive Walker introduced the report for Quarter 1, informing the Committee of work completed by the Risk and Assurance Directorate, work in progress and planned to start.

It was reported that all strategic risks will have been discussed at the appropriate Committee or Panel by the end of 2019, and a lessons learned review of the process submitted to a future meeting of the Committee.

**[Action: Nico Lategan]**

Additional internal audit resources for Crossrail Limited had been allocated, and co-sourcing arrangements were in the process of being established.

The number of audit reports which required improvement or were poorly controlled were continually kept under review and any thematic or systemic issues would be reported to the Committee.

The project assurance team was working closely with finance staff on providing good business case and affordability training, and a new continuing assurance model was also being developed.

Raising fraud awareness among staff through the reporting of fraud convictions via social media and a zero tolerance approach, combined with the greater use of analytics, all contributed to a culture of tackling fraud within TfL. Prosecutions and dismissals of staff committing fraud were critical to reinforcing that message. Increased public facing visibility of TfL's approach to tackling fraud and the consequences for TfL of lost revenue and its impact on safety and re-investment issues were also important.

Members were assured that information on contractors who had a poor safety record were shared with safety and environmental regulators (The Office of Rail and Road, The Health and Safety Executive and The Environment Agency) who take appropriate further 'industry' investigation and action.

**The Committee noted the report.**

### **49/09/19 Counter-Fraud, Bribery and Corruption Strategy**

Clive Walker presented TfL's Counter-Fraud, Bribery and Corruption Strategy.

An update on progress with delivery of the strategy would be reported in the Risk and Assurance Annual Report.

**The Committee noted the Counter-Fraud, Bribery and Corruption Strategy and the steps being taken to implement it.**

### **50/09/19 Effectiveness Review of the External Auditors**

Rachel Shaw reported to the Committee on external auditor effectiveness. Karl Havers left the meeting for the discussion of this item.

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

### **51/09/19 TfL Statement of Accounts Year Ended 31 March 2019 – Changes Made Prior to Finalisation**

Rachel Shaw presented the paper on material changes to the Statement of Accounts subsequent to their presentation at the previous Committee meeting, of which there were none.

**The Committee noted the paper.**

### **52/09/19 Freedom of Information Update**

Richard Bevins presented an update on the overview of TfL's performance in processing Freedom of Information requests.

It was noted that Appendix 3 had been amended on the TfL website to correctly show the trend data.

The Committee noted the paper.

### **53/09/19 Register of Gifts and Hospitality for Members and Senior Staff**

Howard Carter introduced the standing item on details of the gifts and hospitality declared by the Board and senior staff.

The Committee was informed that Kay Carberry CBE, had declared attendance at an ASLEF parliamentary reception on 15 May 2019, and although this was below the relevant threshold, it had been agreed to include it in the Register for transparency and the Register would be corrected. **[Action: Secretariat].**

The Committee noted the paper.

### **54/09/19 Members' Suggestions for Future Discussion Items**

Howard Carter presented the current forward programme.

The Committee noted the report.

### **55/09/19 Any Other Business the Chair Considers Urgent**

There was no urgent business.

### **56/09/19 Date of Next Meeting**

The next scheduled meeting was due to be held on Tuesday 3 December 2019 at 10.00am.

### **57/09/19 Exclusion of Press and Public**

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraphs 3 & 5 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business: Independent Investment Programme Advisory Group Quarterly Report; Pan-TfL Revenue Protection Programme; Risk and Assurance Quarter 1 Report 2019/20; and Effectiveness Review of the External Auditors.

The meeting closed at 12.35pm

Chair: \_\_\_\_\_

Date: \_\_\_\_\_

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Actions List and Matters Arising

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### **This paper will be considered in public**

#### **1 Summary**

1.1 This paper informs the Committee of progress against actions agreed at previous meetings and an update on any Chair's Action.

#### **2 Recommendation**

2.1 **The Committee is asked to note the Actions List.**

#### **List of appendices to this report:**

Appendix 1 – Actions List

#### **List of Background Papers:**

Minutes of previous meetings of the Committee

Contact Officer: Howard Carter, General Counsel  
Number: 020 3054 7832  
Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)

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## Audit and Assurance Committee Actions List (reported to 3 December 2019 meeting)

### Actions from last meeting

| Minute No. | Item/Description   | Action By       | Target Date             | Status/note                  |
|------------|--|-----------------|-------------------------|------------------------------|
| 47/09/19   | <b>Annual Audit Letter</b><br>EY had issued a qualified opinion on Value for Money in relation to procurement processes. A number of actions were being taken to address this issue and a report would be submitted to the next meeting. | Simon Kilonback | 3 December 2019 meeting | Report on agenda. Completed. |
| 48/09/19   | <b>Risk and Assurance Quarter 1 Report 2019/20</b><br>A review of the strategic risk process to be submitted to a future meeting of the Committee.   | Nico Lategan    | 18 March 2020 meeting.  | Scheduled on Forward Plan.   |
| 53/09/19   | <b>Register of Gifts and Hospitality for Members and Senior Staff</b><br>To update the Register as requested.  | Secretariat     | Following the Meeting.  | Register amended. Completed. |

### Actions from previous meetings:

| Minute No.           | Item/Description  | Action By       | Target Date              | Status/note                  |
|----------------------|---|-----------------|--------------------------|------------------------------|
| 26/06/19<br>47/09/19 | <b>EY Report to Those Charged with Governance</b><br>An update on procurement controls to be submitted to a future meeting. | Simon Kilonback | 3 December 2019 meeting. | Report on agenda. Completed. |

| Minute No. | Item/Description  | Action By                | Target Date              | Status/note  |
|------------|---|--------------------------|--------------------------|--|
| 33/06/19   | <b>Cyber Security Update</b><br>An update report to include details of the levels of maturity in terms of security and capability across the different parts of the organisation. | Shashi Verma/Jazz Garcha | 3 December 2019 meeting. | Report on agenda. Completed.                         |
| 35/06/19   | <b>Legal Compliance Report (1 October 2018 – 31 March 2019)</b><br>Additional trend data to be included in future reports.  | Howard Carter            | 3 December 2019 meeting. | Information included in report on agenda. Completed. |
| 36/06/19   | <b>Strategic Risk Update: Governance and Controls Suitability SR03</b><br>That the corrective controls include additional detail in future reports.                               | Nico Lategan             | 18 March 2020 meeting.   | In progress.   |



## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Independent Investment Programme Advisory Group  
Quarterly Report

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### This paper will be considered in public

#### 1 Summary

- 1.1. This paper presents the Independent Investment Programme Advisory Group (IIPAG) Quarterly Report for November 2019. It describes the work undertaken since the last report presented to this committee on 26 September 2019.
- 1.2. A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

#### 2 Recommendation

- 2.1 **The Committee is asked to note the Independent Investment Programme Advisory Group's Quarterly Report and the Management Response set out below and the supplementary information on Part 2 of the agenda.**

#### 3 IIPAG Quarterly Report

- 3.1 Under its Terms of Reference, IIPAG is required to produce quarterly reports of its advice on strategic and systemic issues, logs of progress on actions and recommendations and the effectiveness of the first and second lines of project and programme assurance.
- 3.2 There are no specific recommendations in the IIPAG November 2019 Quarterly Report.
- 3.3 The TfL Project Assurance team continue to track progress against the recommendations made by IIPAG through their reviews of TfL's projects and sub-programmes.
- 3.4 Figure 1 on the following page sets out the status of the IIPAG recommendations at the end of each of the last three quarters.

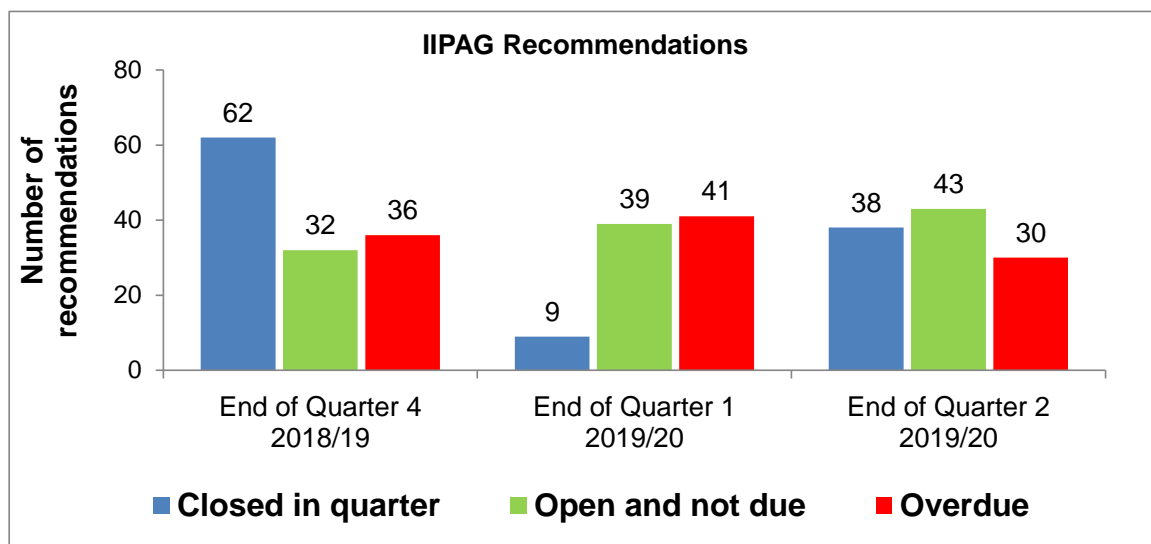


Figure 1: Status of IIPAG Recommendations

- 3.5 Comparing the end of Quarter 2 with the end of Quarter 1 there is a decrease in the number of overdue recommendations from 41 to 30, with an increase by 4 in the number of open and not due recommendations. During Quarter 2 38 IIPAG recommendations were closed. There are no new unagreed IIPAG recommendations this quarter.

## 4 Management Response

- 4.1 In their quarterly report IIPAG note the identification of a new issue relating to the availability of key documents for project assurance reviews. IIPAG consider that TfL Project Assurance should define the minimum documentation requirements for project assurance reviews, and to ensure that reviews only take place when these are met, except in exceptional circumstances.
- 4.2 At the commencement meetings held at the start of each project assurance review we will ensure that there is adequate first line assurance in place, with appropriate project documentation as evidence. Where it is found that first line assurance has not been undertaken to an adequate level we will not progress with the project assurance review until such time that this is addressed. We are revising the terms of reference for the project assurance reviews to further clarify the documents which are to be made available to support each project review.

### List of appendices to this report:

Appendix 1: IIPAG Quarterly Report (November 2019)

A paper containing exempt supplemental information is included on Part 2 of the agenda.

### List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel

Number: 020 3054 7832

Email: [HowardCarter@TfL.gov.uk](mailto:HowardCarter@TfL.gov.uk)

## Independent Investment Programme Advisory Group – Quarterly Report (November 2019)

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This paper will be considered in public

### 1. Summary

- 1.1. This is a report of the activities of IIPAG during September and October 2019 (i.e. since our last report). It provides an update on emerging cross-cutting or systemic issues, and our cross-cutting work programme.

### 2. Recommendations

- 2.1. We make no new recommendations in this report. We note below an issue about documentation for Project Assurance Reviews. This will be picked up in recommendations from our current review of the first and second lines of defence.

### 3. IIPAG Reviews of Projects and Sub-Programmes

- 3.1. It has been a relatively short time since our last report. In that time IIPAG has participated with PA in the following reviews.

| <b>Project Assurance Reviews</b>    |
|-------------------------------------|
| LU Lifts and Escalators             |
| CLIP                                |
| LU Stations                         |
| Bakerloo Line Upgrade and Extension |
| Cycle Future Highway 5              |
| Cycle Future Highway 9              |

- 3.2. Our reviews continue to find a lot of good work in TfL, but they have also identified a number of issues and recommendations.
- 3.3. We have also continued to engage with the business through participation in Investment Group, LUX and ST Leadership Group (previously STIB).

### 4. Recurring Themes

- 4.1. In our last report we noted six issues that were common to many of the reviews we had undertaken so far. These were: capability and resources; programme and portfolio management; cost and risk; schedule pressure; governance; and value for money. These have continued to be common themes in the reviews we have undertaken in the past 2 months, though we note that resource pressures have been eased in some areas (see below).
- 4.2. From some recent reviews we have identified a further issue around the availability of key documents for Project Assurance Reviews (PARs), especially when the project teams are seeking a significant decision such as Programme or Project Authority.

- 4.3. In a number of cases the business case has been in draft and subject to updating. There have been cases of insufficient assurance of cost estimates. In many cases drafts of the key submissions seeking programme or project authority are not available at the time of reviews. In one case the relevant Pathway gate (the first line assurance) had not occurred before the second line PAR. Papers, including from External Experts, often arrive very close to the date of the review. Whilst we recognise the schedule pressures that some projects face, we do not consider that such practices are ideal, and they diminish the effectiveness of assurance reviews.
- 4.4. We consider that TfL Project Assurance should define the minimum documentation requirements for PARs, and ensure that reviews only take place when these are met, except in exceptional circumstances. IIPAG will shortly report on the effectiveness of the first and second lines of defence in TfL projects and we expect to recommend improvement in this area.
- 4.5. Following discussion with the Chair of the Programmes and Investment Committee, we are also working with TfL Project Assurance to review the purpose of and approach to Sub Programme Reviews, to ensure that the reviews and our advice are as helpful as possible to decision makers

### **5. Management Progress on IIPAG Recommendations**

- 5.1. We noted in our last report that a detailed exercise was underway to review the future demand for engineering resource and how that demand could be met. We have recently been informed that additional engineers have been recruited in the past few months and that TfL Engineering believe that the position is now stable

### **6. Cross-Cutting Work**

- 6.1. Our annual work programme identified a number of areas which we would consider on a cross-cutting basis. We continue to make progress on these. We have completed a review of project reporting in which we found that reporting is inconsistent, and the process of reporting is burdensome and inefficient. More importantly, we found that leaders are not always presented with all the information that they require to make the best decisions. We have proposed a pragmatic approach to improvement which will be discussed at the November 2019 Investment Group meeting.
- 6.2. A review into the effectiveness of the first and second lines of defence in project assurance is nearly complete. We expect to be able to report on this to the next meetings of the Audit and Assurance Committee and the Programmes and Investment Committee.
- 6.3. Fieldwork for the Benchmarking review is nearly complete. Work is underway for the reviews on value for money and TfL standards. Reports are in preparation on engineering resource and project initiation.

Contact Officer: Alison Munro, Chair of IIPAG  
[AlisonMunro1@tfl.gov.uk](mailto:AlisonMunro1@tfl.gov.uk)

## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** External Audit Plan TfL, TTL and Subsidiaries - Year Ending 31 March 2020

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**This paper will be considered in public**

### **1 Summary**

1.1 To present to the Audit and Assurance Committee EY'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 2020.

### **2 Recommendation**

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

### **3 Background**

3.1 The Plan has been developed by EY, and sets out the work that they propose to undertake for the 2019/20 financial year. The Plan sets out the audit strategy and approach for the audit of the financial statements and also encompasses work relating to Value for Money.

3.2 As was the case for 2018/19, a majority of the subsidiaries of the TfL Group will be claiming exemption from audit this year and the Audit Plan has been drawn up on this basis.

#### **List of appendices to this report:**

Appendix 1 – Financial Statements Audit Plan 2019/20 from EY

#### **List of Background Papers:**

None

Contact officer: Tony King, Interim Group Finance Director  
Statutory Chief Finance Officer

Number: 020 7126 2880

Email: [AntonyKing@tfl.gov.uk](mailto:AntonyKing@tfl.gov.uk)

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Appendix 1

# Transport for London Audit planning report

Year ending 31 March 2020

3 December 2019

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**The Audit and Assurance Committee**

3 December 2019

Transport for London  
5 Endeavour Square  
Stratford  
London  
E20 1 JN

Dear Members of the Audit and Assurance Committee

We are pleased to attach our audit planning report for the forthcoming meeting of the Audit and Assurance Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2020 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

The Transport for London (TfL) Group and Corporation audits form part of our framework contract with Public Sector Audit Appointments Limited. We will complete our work in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, auditing standards and other professional requirements.

We are also the auditors of TfL's subsidiary, Transport Trading Limited Group (TTL) and Crossrail Limited. TfL's subsidiaries are subject to the accounting requirements of the Companies Act 2006. We will complete our work in accordance with the requirements of UK Auditing Standards.

This report summarises our assessment of the key issues which drive the development of an effective audit for TfL and subsidiaries. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Audit and Assurance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 03 December 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Karl Havers

For and on behalf of Ernst & Young LLP



# Contents

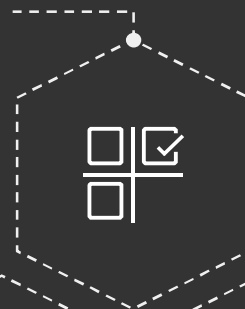
**01** Overview of our 2020 audit strategy



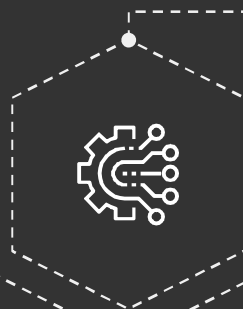
**02** Audit risks



**03** Audit materiality



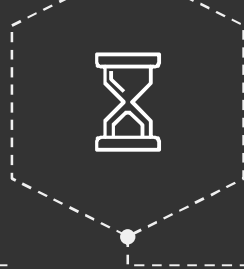
**04** Scope of our audit



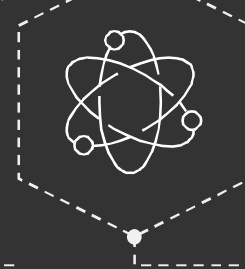
**05** Audit team



**06** Audit timeline



**07** Independence

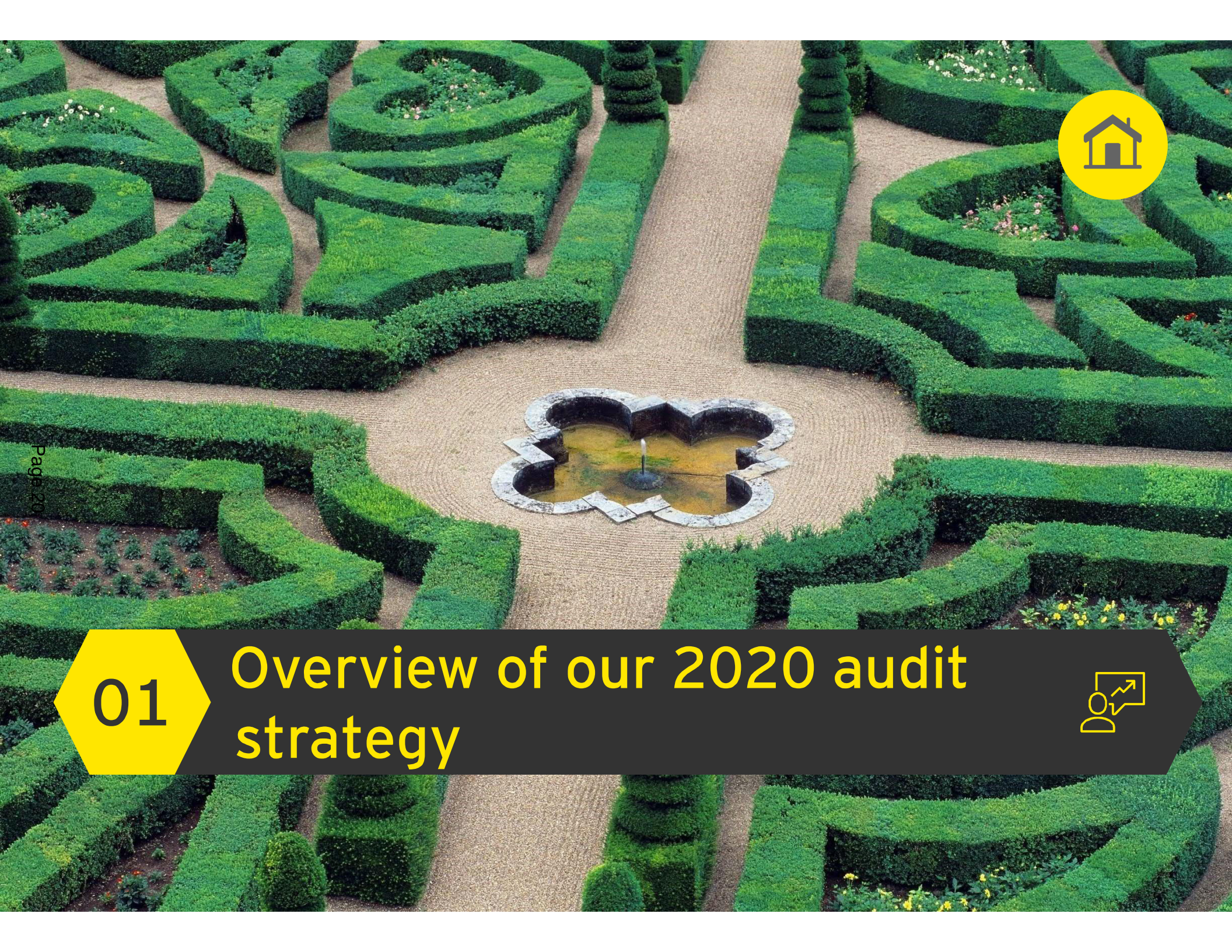


**08** Appendices



The contents of this report are subject to the terms and conditions of our appointment.

This report is made solely to the Audit and Assurance Committee and management of Transport for London in accordance with our engagement letter. Our work has been undertaken so that we might state to the Audit and Assurance Committee and management of Transport for London those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Assurance Committee and management of Transport for London for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Overview of our 2020 audit strategy



## Overview of our 2020 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

| Risk / area of focus   | Audit risk identified | Change from PY                                    | Details  |
|--|-----------------------|---|--|
| <b>Management override of controls</b>   | Fraud risk            | Continued increased focus on procurement controls | <p>Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every engagement under ISA (UK &amp; Ireland) 240.</p> <p>During the prior year, weaknesses were identified by management and internal audit in procurement controls, we will assess progress with implementation of action plans and consider this during our testing response to the risk of management override of controls.</p>   |
| <b>Inappropriate Revenue recognition, required by ISA (UK &amp; Ireland) 240 (including expenditure as required by Practice Note 10)</b> | Fraud risk            | No change in risk or focus                        | <p>TfL need to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements.</p> <p>Based on our audit experience, we have concluded that there is significant risk of material misstatement in the recognition of fare income which comprises £4.8 billion (2018/19) generated through various sources including cash and contactless payments which is apportioned with the Train Operating Companies "TOC" and recognised over the life of the product.</p> <p>The process of revenue recognition is complex and involves significant judgement with regards to the apportionment of revenue between TfL and TOCs. We understand that resolution has been reached during the year, of prior year discussions and we will confirm the treatment of related settlements.</p> <p>We have not identified any specific risk areas in relation to expenditure.</p> |

## Overview of our 2020 audit strategy

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### Audit risks and areas of focus

| Risk / area of focus   | Audit risk identified | Change from PY             | Details   |
|--|-----------------------|----------------------------|---|
| <b>Inappropriate capitalisation or potential impairment of capital projects including capital accruals</b> | Significant risk      | No change in risk or focus | <p>TfL, Transport Trading Limited ('TTL') and subsidiaries undertake multiple capital projects which vary in size, complexity and length of time to complete. In the 2019/20 financial year, TfL's capital expenditure is budgeted to be £3.1 billion.</p> <p>Controls need to be effective to appropriately recognise the costs from these significant projects including:</p> <ul style="list-style-type: none"> <li>• Appropriate split of costs between capital and operating expenditure;</li> <li>• Assessment of the economic useful lives of the asset where costs are capitalised;</li> <li>• Whether to recognise impairments and write-offs for assets to reflect either increased risks of projects being terminated or suspended;</li> <li>• Adequate assessment of estimated cost to complete and relevant pain/gain appropriately accounted for; and</li> <li>• In particular, we will continue to assess the impact of Crossrail progress and funding on the ability of TfL to complete and fund other in progress projects.</li> </ul> |
| <b>Complexity of accounting for TfL and TTL property portfolios</b>  | Significant risk      | No change in risk or focus | <p>TfL and TTL groups have an extensive property portfolio, with a total book value for property of £937 million as at 31 March 2019 (of which £122 million was Assets Held for Sale). Included within the portfolio are office buildings and investment properties.</p> <p>The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.</p> <p>TfL will need to comply with the Mayor's affordable housing programme. The Mayor has committed to prioritising affordable home delivery on surplus or under utilised owned by the GLA Group, including TfL. This might have a negative impact on the valuation of TfL's property portfolio.</p>  |



## Overview of our 2020 audit strategy

| Audit risks and areas of focus   |                       |   |  |
|--|-----------------------|---|--|
| Risk / area of focus   | Audit risk identified | Change from PY  | Details  |
| <b>Crossrail funding</b>   | Significant risk      | No change in risk or focus  | <p>As reported in early November, the current estimate of costs for Crossrail have increased, there is a further delay in planned opening schedule and funding sources are uncertain. As a result it is not certain what amount TfL will have to fund itself. The consequences of that may be that proposed or current projects may need to be altered (with consequential impairment of assets), or the use of investment property or other assets may need to change to provide funding. All of which could impact the income statement and balance sheets of the Group.</p> <p>There is uncertainty with regards to the going concern assumption for Crossrail and TfL, should the funding requirements continue to increase.</p> |
| <b>Significant accounting estimates - including complexity of provisions</b> | Inherent risk         | This was a significant risk in prior year, however one of the major areas has been settled in 2019/20 and so we have re-assessed the risk as an inherent risk for this year | <p>Certain provisions (e.g. Compulsory purchase orders, litigation, claims and disputes) require complex estimates involving high levels of management judgement and uncertainty.</p> <p>TfL, TfL and subsidiaries have complex capital contract and commercial arrangements. A large proportion of TfL's provisions come from its capital investment activities and transformation process. In particular CPO provisions, fares revenue compensation and contractual disputes are subject to significant estimation and include uncertainty around negotiations. We also note that there are some legal proceedings against TfL for which provisions have been recorded.</p>  |

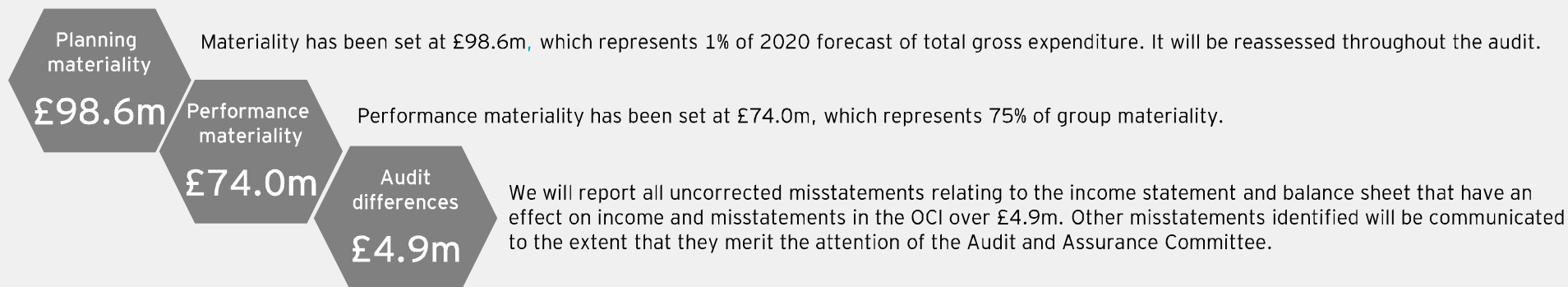
# Overview of our 2020 audit strategy

## Audit risks and areas of focus

| Risk / area of focus  | Audit risk identified | Change from PY             | Details   |
|---|-----------------------|----------------------------|---|
| <b>Judgemental assumptions impacting on TfL's pension deficit</b>                           | Inherent risk         | No change in risk or focus | <p>At 31 March 2019, TfL's defined benefit pension schemes had a deficit of £5.37 billion. The TfL Group balance sheet includes the deficit on the TfL Pension Fund and TfL's share of the deficit on the Local Government Pension Scheme, the deficit on the Crossrail section of the Railways Pension Scheme and the liability for unfunded pensions obligations.</p> <p>The assumptions used to arrive at the value of the pension deficit are judgemental. The setting of these assumptions in accordance with IAS19(R) Employment Benefits will be an area of audit emphasis.</p> <p>Based on our prior year's experience, the risk of material misstatement occurring is deemed to be low, therefore this risk has been designated as an inherent risk.</p> |
| <b>Complexity of accounting and disclosures for TfL's borrowing and treasury management</b> | Inherent risk         | No change in risk or focus | The group holds a number of derivative balances including FX forwards and interest rate swaps. Whilst the recalculation of derivative fair values is relatively complex the type of derivatives held by TfL (FX and Interest rate swaps) are not the most complex investment vehicles. The balances held are also not highly material and therefore the risk has been designated as a higher inherent risk.   |
| <b>Application of new accounting standards e.g. IFRS 16</b>                                 | Inherent risk         | No change in risk or focus | The changes in IFRS and CIPFA code, and compliance thereof, could create material misstatements. Based on our prior year audit experience, management is competent and has knowledge of applicable standards. The impact is not expected to be material therefore it is designated as a higher inherent risk.   |

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## Materiality





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# 02

## Audit risks





# Audit risks

## Risk assessment

### Key audit matters

ISA (UK) 701 is effective for periods commencing on or after the 17 June 2016 and requires that we communicate key audit matters in our auditor's report. Key audit matters are selected from the matters we communicate to you that in our opinion are of most significance to the current period audit and required significant attention in performing the audit.

When determining key audit matters we will consider:

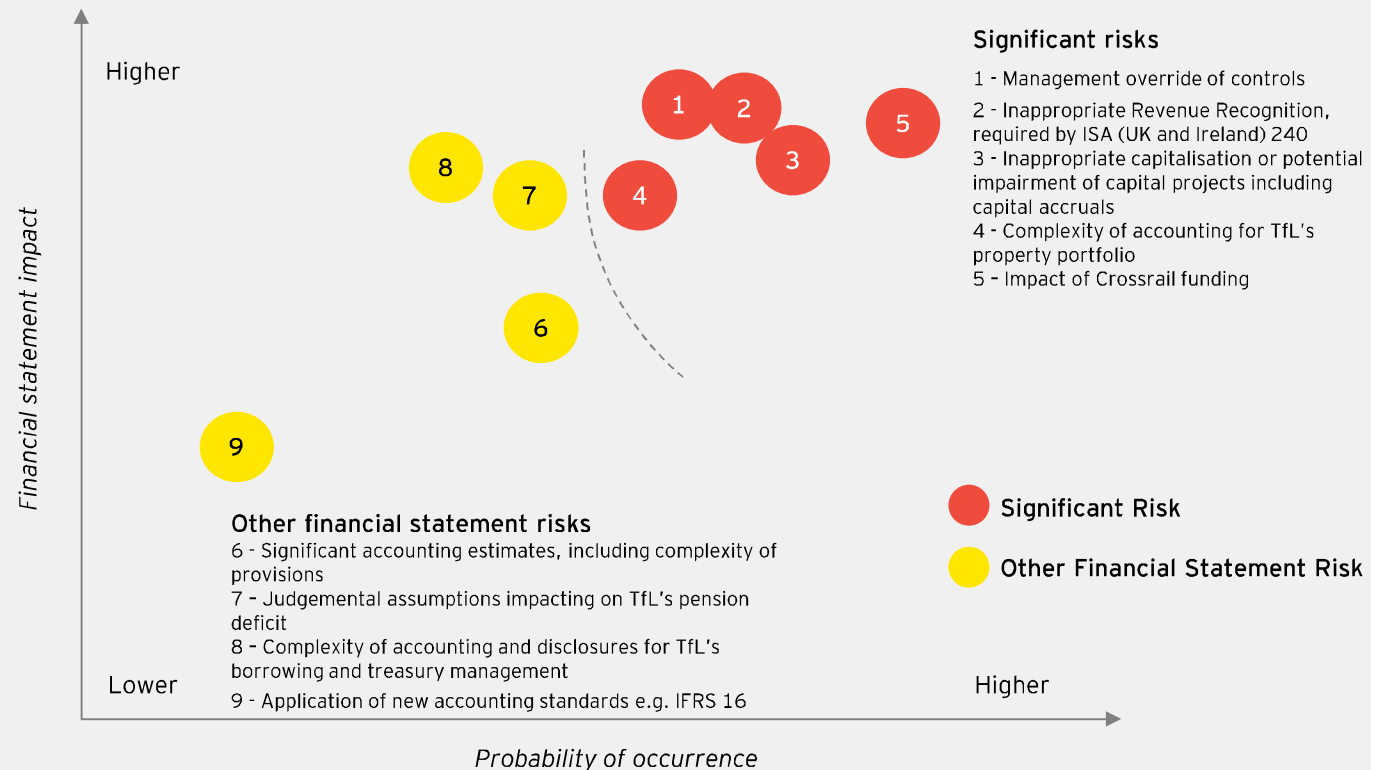
- ▶ Areas of higher or significant risk
- ▶ Areas involving significant judgment, including accounting estimates with high estimation uncertainty
- ▶ Significant events or transactions that occurred during the period

At this stage of the audit we do not know what key audit matters we will include in our auditor's report. However, we have included within this section the most significant assessed risks of material misstatement (whether or not due to fraud), including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We will confirm the key audit matters to you in our audit results report.

### Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2019 Annual Report and Accounts and combined it with our understanding of the industry to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:







## Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Management override of controls\*

#### What is the risk?

Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every engagement under ISA (UK & Ireland) 240.

As part of our risk assessment we consider the current objectives of TfL and areas where there might be judgement with potential for bias to present a particular result, such as reduced operating expenditure.

During the prior year, weaknesses were identified by management and internal audit in procurement controls, management has been implementing of action plans to address these weaknesses during 2019/20.

#### What will we do?

For both TfL, TTL groups and subsidiaries, we will:

- Robustly challenge management's assumptions on capitalising expenditure;
- Critically review fares revenue;
- Apply professional scepticism by questioning whether management's explanations are logical, reasonable and in line with relevant historic trends supported by sufficient appropriate evidence;
- Review the business rationale for unusual transactions;
- Consider the effectiveness of management's controls designed to address the risk of fraud;
- Understand the oversight given by those charged with governance of management's processes over fraud;
- Perform journal entries testing with specific focus on journals related to cost capitalised indicative of management override (posted by members of management, with blank or unusual descriptions, etc.) with specific focus on top side journals;
- Test significant transactions that are outside the normal course of business or that appear unusual; and
- Test procurement transactions pre and post action plan implementation to identify any material override of controls.

# Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

**Inappropriate Revenue recognition, required by ISA (UK & Ireland) 240\***

### Financial statement impact

Misstatements that occur in relation to inappropriate revenue recognition or areas of expenditure which could be manipulated, required by ISA (UK & Ireland) 240 and PN 10, would affect the receipts in advance for travel cards, bus passes and Oyster cards and fares revenue accounts. These accounts had the following balances in the 2019 financial statements:

- Income Statement Account: £4,854m
- Balance Sheet Account: £394.5m
- Gross Operating expenditure: £7,561m

### What is the risk?

TfL need to have robust controls in place to forecast and accurately recognise and report revenue in its financial statements, including:

- £4.8 billion fare revenue (2018/19) generated through various sources including cash and contactless payments which is apportioned with the Train Operation Companies "TOC" and recognised over the life of the product.
- £230 million of congestion charging revenue, which is made up of a high volume of low transaction amounts
- £156 million of commercial advertising revenue which is based on a mixture of minimum guaranteed amount and share based revenue; and
- £87 million of rental revenue generated from over 2,400 contracts.

The significant risk only related to the fares revenue stream. This is due to complexity and judgement involved in the process to apportion the fares revenue recognised.

In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have not identified any specific risk areas in relation to expenditure.

### What will we do?

For Fares Revenue, we will:

- Gain an understanding of the revenue process for fares revenue;
- Perform controls testing over the effectiveness of the cash collection process and sales made at various sales outlets;
- Test to ensure that the Receipts in Advance "RIA" and JFT Debtor balance is correctly stated;
- Test the appropriateness of assumptions used by management on the oyster write-back policy adopted;
- Test transactions separately where we are not able to place reliance on the controls in place or where procedures above are not be sufficient;
- Test the fares compensation arrangements with the TOCs resulting from the fares cap introduced in Jan 2015. We understand that resolution has been reached during the year, of prior year discussions and we will confirm the treatment of related settlements; and
- Review the ISAE 3402 controls report and the agreed upon procedures report.



## Audit risks

# Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

**Inappropriate capitalisation or potential impairment of capital projects including capital accruals**

### What is the risk?

TfL, TTL groups and subsidiaries undertake multiple capital projects at any one time, which vary in size, complexity and length of time to complete. In the 2019/20 financial year, TfL's capital expenditure is budgeted to be £3.1 billion.

Judgements and controls need to be effective, to appropriately recognise the costs from these significant projects including:

- Appropriate split of costs between capital and operating expenditure;
- Assessment of the economic useful lives of the asset where costs are capitalised; and
- Whether to recognise impairments and write-offs for assets to reflect increased risks of projects being terminated or suspended.

### What will we do?

For TfL, TTL groups and subsidiaries we will:

- Review a sample of capital projects (including Crossrail), based on quantitative and qualitative thresholds;
- Understand key controls and governance surrounding capital project accounting and management;
- Meet with management and project managers during the year and attend management's P11 and P13 accruals meetings;
- Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable;
- Consider pain/gain arrangements and related accounting treatment;
- Assess whether or not capitalisation of costs is appropriate;
- Consider whether, at any stage, assets need to be impaired or written off to reflect any aborted or higher risk projects;
- Perform detailed testing on a sample of expenditure incurred and capital accruals to source documentation;
- Assess whether management has reasonably estimated the cost to complete the capital projects; and
- Review of capital projects to assess progress and potential impairment, in particular, we will continue to assess the impact of Crossrail progress and funding on the ability of TfL to complete and fund other in progress projects.

### Financial statement impact

Misstatements that occur in relation to inappropriate capitalisation or potential impairment of capital projects including capital accruals would affect the carrying value of assets under construction and capital accruals accounts. These accounts had the following balances in the 2019 financial statements:

Balance Sheet Account:

- Assets under construction: £17,443.9m; and
- Capital accruals: £575.5m



## Audit risks

# Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Complexity of accounting for TfL and TTL property portfolios

#### Financial statement impact

Misstatements that occur in relation to the complexity of accounting for TfL and TTL group's property portfolios would affect the investment properties account. The account had the following balances in the 2019 financial statements:

#### Balance Sheet Account:

- Investment property: £492.5m
- Assets Held for Sales: £122.4m
- Office buildings: £321.7m

#### What is the risk?

TfL and TTL groups have extensive property portfolios, with a total book value for property of £937 million as at 31 March 2019 (of which £122 million was Assets Held for Sale).

Included within the portfolios are office buildings and investment properties.

The unique and material nature of TfL and TTL group's property portfolios means that small changes in assumptions when valuing these assets can have a material impact on the financial statements.

TfL will need to comply with the Mayor's affordable housing programme. The Mayor has committed to prioritising affordable home delivery on surplus or under utilised owned by the GLA Group, including TfL. This might have a negative impact on the valuation of TfL's property portfolio.

#### What will we do?

For TfL, TTL groups and subsidiaries, we will:

- Discuss with management and review evidence to gain understanding of TfL and TTL group's property portfolios;
- Discuss and review valuation assumptions made by external valuers along with the TfL property team;
- Perform substantive testing and corroborate explanations for property additions, disposals and accounting for lease contracts;
- Assess the classification of TfL and TTL property portfolios, the valuation basis and any material increases or impairments that arise during 2019/20;
- Assess the work of TfL's property valuers. We will use our EY property valuation team as appropriate to review and test the accounting entries and disclosures made in the financial statements;
- Review infrastructure and office buildings, PFI accounting models and appropriateness of accounting and disclosures;
- Consider classification of assets between investment properties, property, plant and equipment and assets held for sales in accordance with IFRS; and
- Review sites to ensure affordable housing density needs are appropriately built into site valuations.



## Audit risks

# Our response to significant risks (continued)

### Crossrail funding

#### What is the risk?

The Crossrail project continues to be complex and as it reaches its conclusion, there will be the finalisation of related costs and contractual matters. These matters will not be completed at the year end and therefore judgement is required in assessing the appropriate value of obligations, where negotiations are in progress.

As reported in early November, the current estimate of costs for Crossrail have increased, there is a further delay in planned opening schedule and funding sources are uncertain. As a result it is not certain what amount TfL will have to fund itself. The consequences of that may be that proposed or current projects may need to be altered (with consequential impairment of assets), or the use of investment property or other assets may need to change to provide funding. All of which could impact the income statement and balance sheets of the Group.

There is uncertainty with regards to the going concern assumption for Crossrail and TfL, should the funding requirements continue to increase.

#### What will we do?

For TfL, TTL group and subsidiaries, we will:

- ▶ Discuss and review the business plan prepared by the management;
- ▶ Determining an appropriate strategy to address those identified risks;
- ▶ Review the group's forecast;
- ▶ Review management's assessment of funding requirements and commitments;
- ▶ Assess impact of funding requirements on TfL projects that could result on the cancellation or delay of major projects; and
- ▶ Evaluate management's judgements and assumptions used in determining the future benefits expected from the projects and ensuring they are appropriate and supportable.



## Audit risks

# Other areas of audit focus - Value for money “VfM” Conclusion

Under Section 20(1) of the Local Audit and Accountability Act 2014, we are required to satisfy ourselves that Transport for London Corporation has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness in its use of resources.

For 2019/20 this is based on the overall evaluation criterion:

*“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

A summary of our initial risk assessment and planned audit response shown below.

## Prior year conclusion and impact on current year

In 2019, we issued a value for money conclusion stating that there were arrangements in place to secure economy, efficiency and effectiveness, except in relation to two areas:

- ▶ Sustainable resource deployment - A series of weaknesses identified by management and internal audit in respect of procurement processes; and
- ▶ Informed decision making - The governance arrangements relating to Crossrail’s delivery of the Elizabeth line

In both cases, at the time of concluding 2019, management was in the process of implementation action plans to address these points. However these action plans were not fully implemented as at 1 April 2019, the start of the current audit period. The period prior to full implementation and operation of these action plans will therefore impact our overall conclusion for the year ending 31 March 2020 and we will also need to assess whether the actions fully address the issues identified during 2018/19. We have therefore identified these two areas as significant risks for our audit procedures on the value for money conclusion for the current year. See further detail on the following page.



## Audit risks

# Other areas of audit focus - Value for money "VfM" Conclusion

### What is the risk/area of focus?

### What will we do?

#### **Sustainable resource deployment - Significant audit risk**

TfL has significant financial risks in its business plan to 2022/23 as a result of:

- continuing reductions in external funding from government
- the commitments relating to the launch of the Elizabeth line and lost revenue arising from the delayed opening date
- significant cumulative cost reductions planned to be delivered over the course of the next five years to 2022/23

#### **Informed decision making - Significant audit risk**

Despite sound governance arrangements around budgeting and the financial planning for TfL as a whole, the governance arrangements relating Crossrail's delivery of the Elizabeth Line was an area of significant scrutiny in 2018/19.

TfL's operations and ongoing investment programmes are subject to a number of risks, particularly the exposure to economic risks associated with revenue reductions, and financial markets disruption impacting on TfL's ability to borrow. We will:

- Assess the achievement of the 2019/20 budget and the adequacy of the 2020/21 budget setting process;
- Consider the assumptions, scenarios, options and risks TfL is facing and how these are being managed; and
- Review and understand TfL's medium to longer term financial planning and how this is reflected in the 2024/25 business plan to be published in December 2019. We will assess the savings plans in place, and the likelihood of whether these plans can provide the group with the required savings/efficiencies over the medium term.

Other areas of audit focus include the following:

- Understanding the organisation changes that are underway and how these changes will strengthen TfL's decision making arrangements whilst being mindful of interactions with employees and the impact of disputes such as strike actions on management plans;
- How the finance function supports management with clear, summarised and insightful financial and performance information for decision making;
- How TfL exercises governance and oversight over key project areas, significant contracts and procurement;
- Assess progress made on Crossrail against planned execution and evaluating the impact thereof on funding requirements;
- Assess the impact of additional costs capitalised on Crossrail and potential impairment thereof; and
- How TfL plans for and consider addressing the financial and legal risks it is exposed to on capital projects.

During the prior year, a series of weaknesses were identified by management and internal audit in respect of certain areas procurement processes. During 2018/19, an action plan was drawn up to address these matters, with implementation ongoing during 2019/20. We will test the implementation of these actions and consider whether they address the weaknesses identified. We will also consider the period that such changes were in place for and the associated impact on our conclusion as to whether proper arrangements are operating effectively during the year covered by our conclusion.

In 2018/19, an independent report for TfL and Department for Transport by KPMG on finance and commercial, and governance aspects of Crossrail, as well as an independent review by the National Audit Office both identified issues relating to decision making relating to increased costs and impacting the plan for completion of Crossrail as a whole. The programme reporting had been significantly overstating progress and significantly underestimated the impact of each element on other aspects, most notably the system testing. We note that significant effort has been undertaken to reassess actual progress of the programme, forecast spending and opening dates for the line and that during 2018/19 a new management team was appointed and a revised completion schedule drawn up. As such we will assess the governance arrangements in place during 2019/20 to consider whether the issues raised have been addressed for the 2019/20 year.



03

## Audit materiality





# Materiality

## Group materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality also provides a basis for identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We have set materiality on a consistent basis with the previous year.



The amount we consider material at the end of the audit may differ from our initial determination and we will update the above for actual figures rather than budget in due course. We will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date. We will also consider the nature of any audit misstatements identified to determine if there are other factors that could result in errors that may appear immaterial quantitatively but which are material qualitatively.

We welcome the Audit and Assurance Committee's observations on the factors we should consider in arriving at an appropriate basis for setting materiality at and across the TfL Group.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Planning materiality for FY2019/20 has been set at £98.6m. This represents 1% of the Company's 2020 budget for total gross expenditure. It will be reassessed throughout the audit process.

**Performance materiality** – the amount we use to determine the extent of our audit procedures.

After considering past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting; we have set performance materiality at £74.0m (2018/19: £69.3 million) which represents 75% of group materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Assurance Committee, or are important from a qualitative perspective.



04

Scope of our audit



# Scope of our audit

## Scoping the audit

The table below sets out the detailed scope of services and deliverables we have been appointed to provide in FY20.

### Financial reporting

Audit of TfL Corporation, Group and TTL Group financial statements

### Services and deliverables

- ▶ Express opinions on, and report to the Audit and Assurance Committee the results of our audits of the consolidated results of the TfL Group, TTL Group and subsidiaries. We determine whether the accounts are free from material error.
- ▶ We are required to satisfy ourselves that the 2019/20 accounts of the TfL, TTL Groups and subsidiaries comply with statutory and professional accounting requirements.
- ▶ For TfL, this will also include the CIPFA IFRS based Code of Practice on Local Authority Accounting.
- ▶ We will provide audit opinions on the consolidated financial statements of the TfL and TTL Groups.
- ▶ We will also provide audit opinions on the standalone financial statements for Crossrail Limited.
- ▶ For the year ending 31 March 2020, as TTL, the holding company for TfL's trading subsidiaries will offer a guarantee in respect of all liabilities to a majority of its subsidiaries, TfL is proposing to continue to apply section 479A of the Companies Act 2006 that enable certain UK subsidiary companies to claim exemption from the audit of their accounts.

# Assessment of Internal Control

## Gaining assurance through the control environment

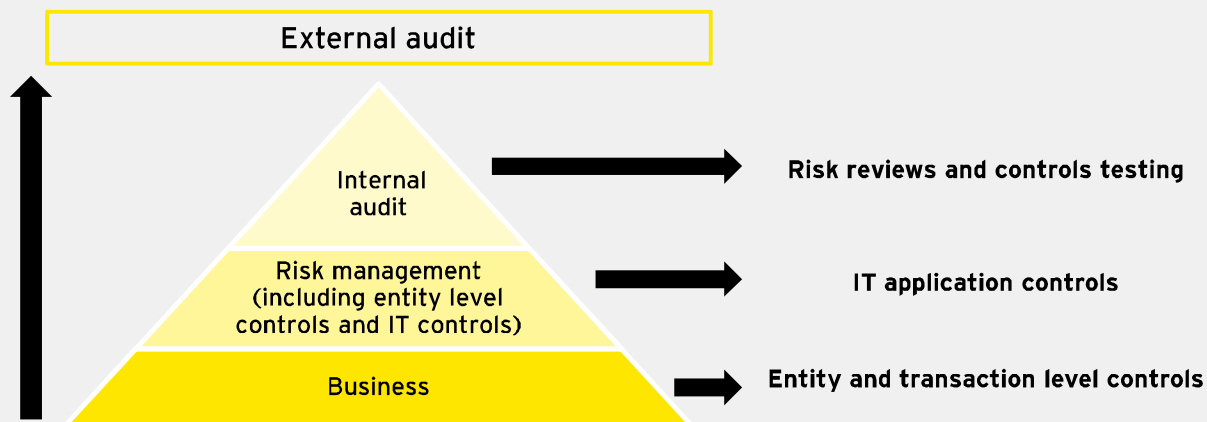
### Internal controls over financial reporting

We will update our understanding of the internal controls over financial reporting used throughout the TfL and TTL Group, with the intention of using a controls-based audit approach again, where we expect this to be robust and efficient. To be able to adopt an efficient controls-based approach, we consider the various layers of assurance and leverage where there is potential to do so, shown in the diagram below. In particular, we review:

- ▶ Entity level controls; we will maximise efficiency by seeking to rely on entity level controls and processes, such as budget setting and monitoring process;
- ▶ IT systems and applications: we will test the general IT controls built in to the TfL Group's core IT applications, together with IT application controls over your critical business processes; and
- ▶ Assurance reports from third parties such as ISAE3402 reporting on revenue and assurance provided by KPMG in respect of the pension fund.

Where we believe that reliance on controls will not be possible due to any ineffective design or operation of the controls, we will provide feedback on areas for improvement compared to what we see as leading practice, and will instead perform additional substantive procedures to support our audit opinion.

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## Assessment of Internal Control

### Gaining assurance through the control environment (continued)

#### Liaising with Internal Audit

A key part of understanding and monitoring of the control environment is our ongoing liaison with Internal Audit. We will develop a strong working relationship with Internal Audit. We will discuss and review Internal Audit's annual plans and reports to inform where specific reviews can assist us in our controls and Value for Money Conclusion work.

#### Analytics

We will continue to perform data analysis to support our audit procedures, on fixed assets, purchase to pay, payroll and journal entries as well as planned analytics on revenue and capital projects. We will also use our consolidation automation tool.

### TfL Value for Money Conclusion and Whole of Government Accounts

We are required to make certain communications for entities that are required, and those that choose voluntarily, to comply with the Code of Practise, as described in Section 2 of the report 'Other areas of audit focus'. In order to form a view to communicate to the Audit and Assurance Committee, we expect our procedures to include:

- ▶ Review TfL's Annual Governance Statement to confirm that it is consistent with our understanding of your business and operations; and
- ▶ Audit and provide an opinion to the National Audit Office on the Whole of Government Accounts consolidation pack.

We will discuss with you your expectations regarding our communications.

Our audit opinion will report by exception on several of these Code provisions.

Under the 2014 Local Audit and Accountability Act and National Audit Office's Code of Audit Practice, we are also required to issue a statutory Value for Money conclusion on TfL's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 2 of the report 'Other areas of audit focus' sets out our planned audit work.



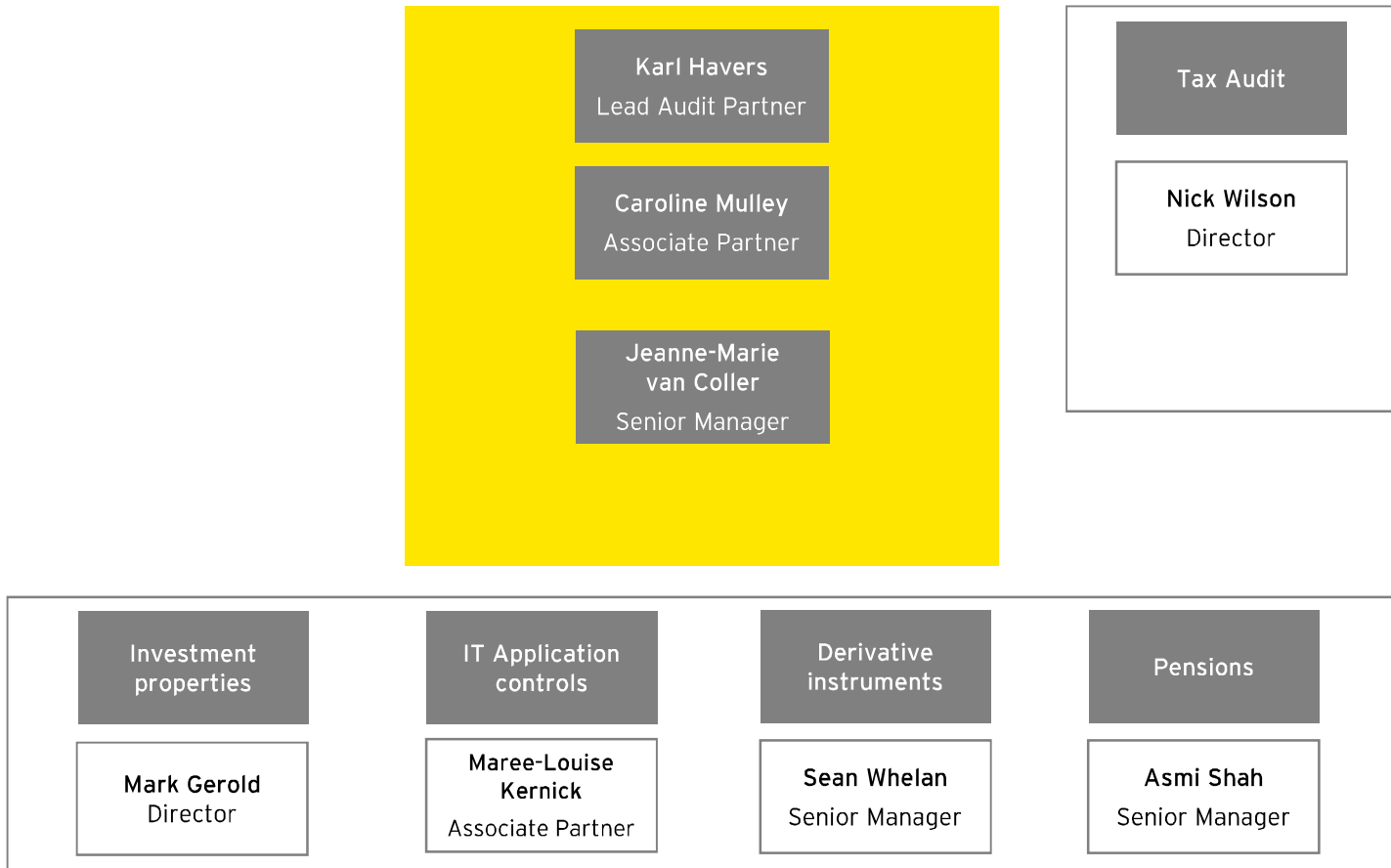
05

Audit team



# Audit team

## Audit team structure



## Audit team

### Use of specialists

- ▶ Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

| Area                    | Specialists                              |
|-------------------------|--|
| Investment properties   | EY CT-Valuation & Business Modelling     |
| Pensions                | EY Advisory, Risk                        |
| Derivative instruments  | EY Financial Advisory Assurance Services |
| IT application controls | EY IT Risk Assessment team               |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Group's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





# 06 Audit timeline





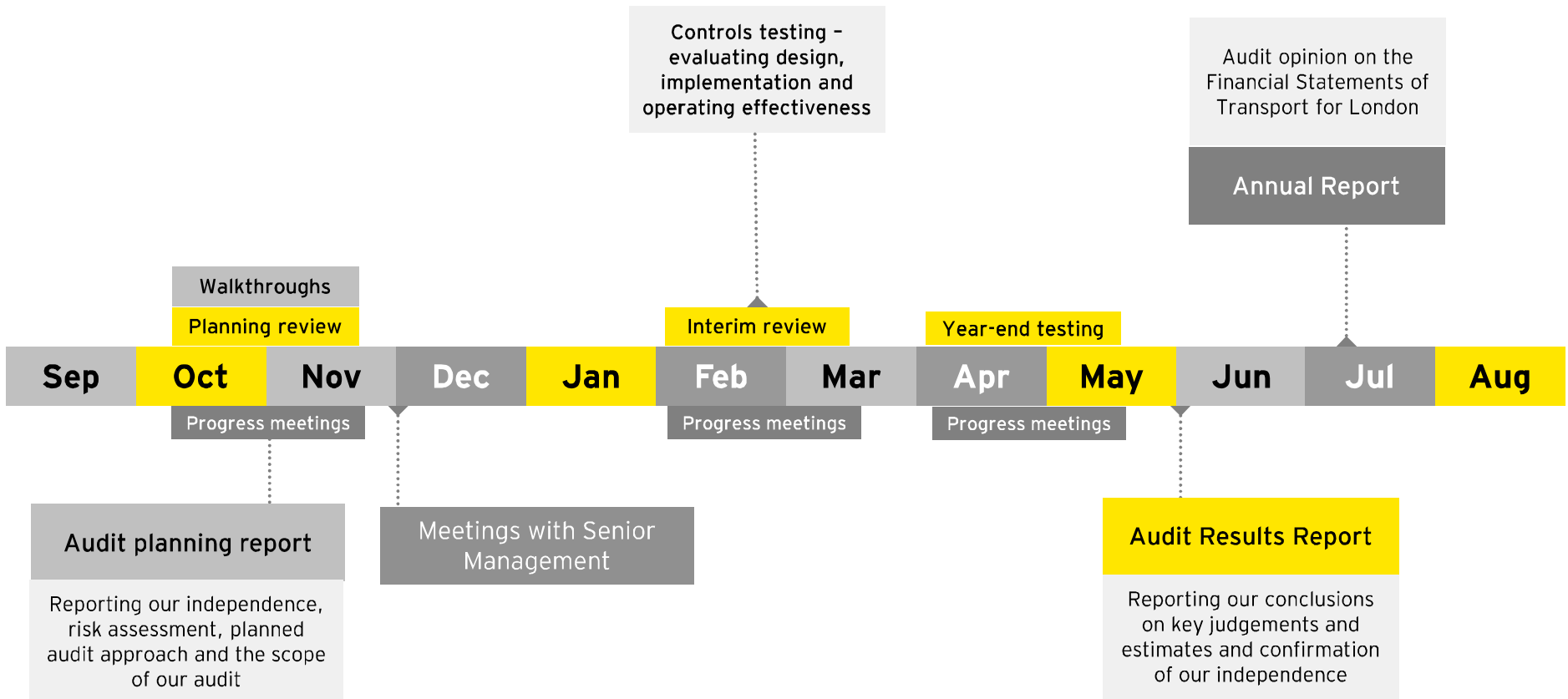
# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020.

From time to time matters may arise that require immediate communication with the Audit and Assurance Committee and we will discuss them with the Audit and Assurance Committee's Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





07

Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications   |   |
|---|---|
| Planning stage  | Final stage   |
| <ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li> </ul> | <ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul> |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Independence

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified on main audit areas, i.e. grant claims and debt issuance, we therefore confirm that EY is independent and the objectivity and independence of Karl Havers, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receives significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under either the FRC's Ethical Standard or the Auditor Guidance Note 1 (AGN01) issued by the National Audit Office. The and the services have been approved in accordance with your policy on pre-approval. AGN01 sets out the requirement that for any year, non audit fees should not exceed 70% of the total fee for all audit work. In addition under Public Sector Audit Appointments Limited requirements when our non audit services cumulatively in any year exceed 20% of the audit fee, then pre approval of services is required.

A separate document will be submitted detailing the non-audit services provided.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4 and AGN01.

There are no other self interest threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



08




Appendices



## Appendix A




# Required communications with the Audit and Assurance Committee

We have detailed the communications that we must provide to the Audit and Assurance Committee.

|                                     |   |  Our Reporting to you  |
|-------------------------------------|---|---|
| <b>Required communications</b>      |  <b>What is reported?</b>  |  <b>When and where</b> |
| Terms of engagement                 | Confirmation by the Audit and Assurance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.  | Discussed within engagement letter  |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter  | Discussed within this report  |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team  | Discussed within this report  |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)</li> </ul> | These matters will be included within our Audit Results Report for the year ending 31 March 2020          |

## Appendix A




# Required communications with the Audit and Assurance Committee (continued)

|                         |   |  Our Reporting to you              |
|-------------------------|---|---|
| Required communications |  What is reported?   |  When and where                    |
| Going concern           | <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>   | If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2020. |
| Misstatements           | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>   | These matters will be included within our Audit Results Report for the year ending 31 March 2020.                     |
| Subsequent events       | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Assurance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>   | These matters will be included within our Audit Results Report for the year ending 31 March 2020.                     |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Assurance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Assurance Committee responsibility</li> </ul> | These matters will be included within our Audit Results Report for the year ending 31 March 2020.                     |






## Appendix A

# Required communications with the Audit and Assurance Committee (continued)

|                                |  |  Our Reporting to you                                   |
|--------------------------------|--|--|
| <b>Required communications</b> |  <b>What is reported?</b>   |  <b>When and where</b>                                  |
| Related parties                | <ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>  | These matters will be included within our Audit Results Report for the year ending 31 March 2020.  |
| Independence                   | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | These matters are included within this report and will also be included within our Audit Results Report for the year ending 31 March 2020. |




## Appendix A

# Required communications with the Audit and Assurance Committee (continued)

|                                       |   |  Our Reporting to you                                  |
|---------------------------------------|---|---|
| <b>Required communications</b>        |  <b>What is reported?</b>  |  <b>When and where</b>                                 |
| External confirmations                | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>  | If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2020.                     |
| Consideration of laws and regulations | <ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit and Assurance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Assurance Committee may be aware of</li> </ul> | If applicable this will be included, as necessary, within our Audit Results Report for the year ending 31 March 2020.                     |
| Internal controls                     | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>   | These matters will be included within our Audit Results Report for the year ending 31 March 2020  |
| Group audits                          | <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> </ul>   | These matters are included within this report and will also be included within our Audit Results Report for the year ending 31 March 2020 |

## Appendix A

# Required communications with the Audit and Assurance Committee (continued)

|  |  |  Our Reporting to you  |
|--|--|---|
| <b>Required communications</b>             |  <b>What is reported?</b>   |  <b>When and where</b> |
|  | <ul style="list-style-type: none"> <li>Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul> |   |
| Representations                            | Written representations we are requesting from management and/or those charged with governance   | These matters will be included within our Audit Results Report for the year ending 31 March 2020.         |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise   | These matters will be included within our Audit Results Report for the year ending 31 March 2020.         |
| Auditors report                            | <ul style="list-style-type: none"> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>  | These matters will be included within our Audit Results Report for the year ending 31 March 2020.         |

## Additional audit information

### Objective of our audit

Our objective is to form an opinion on the consolidated financial statements of the TfL and TTL Groups and also on the standalone financial statements for Crossrail Limited under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU for TTL and Crossrail and under the CIPFA Code for TfL.

Our responsibilities in relation to the financial statement audit are set out in our engagement letter. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Assurance Committee. The audit does not relieve management or the Audit and Assurance Committee of their responsibilities.

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Assurance Committee reporting appropriately addresses matters communicated by us to the Audit and Assurance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements
- ▶ Maintaining auditor independence



## Appendix B

# Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

|   |  |
|---|--|
| <b>Procedures required by UK company law for TTL and Crossrail financial statements</b> | <ul style="list-style-type: none"><li>▶ Opining on whether the information contained in the Strategic Report and the Directors' Report is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;</li><li>▶ Reporting by exception if in the light of the knowledge and understanding of the group and its environment obtained in the course of the audit we identify material misstatements in the Strategic Report and Directors' Report.</li></ul> |
| <b>Procedures required on other information published in the annual report</b>          | <ul style="list-style-type: none"><li>▶ Auditing the disclosures contained in the auditable part of the Remuneration Report to ensure it is in agreement with accounting records and returns.</li><li>▶ Reviewing the Group's disclosures relating to internal control and risk management systems, governance and going concern for consistency with knowledge gained during the audit.</li></ul>   |



## Appendix B

# Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- ▶ The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** EY Report on Non-Audit Fees for Six Months Ended 30 September 2019

---

### This paper will be considered in public

#### **1 Summary**

1.1 To report to the Audit and Assurance Committee on fees billed by EY for non-audit services.

#### **2 Recommendation**

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

#### **3 Background**

3.1 Under TfL's policy on external audit services EY is required to report to the Audit and Assurance Committee every six months on fees billed for non-audit services. EY's report is attached for the Committee's review.

3.2 There have been no non-audit fees during the period 1 April 2019 to 30 September 2019, although there has been an item of non-statutory audit work.

#### **List of appendices to this report:**

Appendix 1 – Letter from EY

#### **List of Background Papers:**

None

Contact: Tony King, Interim Group Finance Director  
Statutory Chief Finance Officer

Number: 020 7126 2880

Email: [AntonyKing@tfl.gov.uk](mailto:AntonyKing@tfl.gov.uk)

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## Appendix 1

Audit and Assurance Committee  
Company Secretariat  
Transport for London  
5 Endeavour Square  
Stratford  
London  
E20 1JN

3 December 2019

Direct line: 01189 281502  
Email: KHavers@uk.ey.com

Dear Sirs

### **Non-audit fees - 6 months to 30 September 2019**

Under Transport for London's policy on external audit services we are required to provide to the Audit and Assurance Committee, on a six monthly basis, a report on fees for all services. Appendix 1 to this letter includes a summary of our non-audit fees during the period 1 April 2019 to 30 September 2019.

Yours faithfully

Karl Havers  
Partner  
For and on behalf of Ernst & Young LLP

## Appendix 1

### Summary of fees

|                        | TfL Corporation<br>2019/20<br>£ | Transport<br>Trading Limited<br>2019/20<br>£ | Comments  |
|------------------------|---------------------------------|--|---|
| Agreed upon procedures |                                 | 11,500                                       | Procedures performed at London Underground Limited, Tramtrack Croydon Limited and Docklands Light Railway Limited to assist with the requirements of regulation 4 of the Railway Safety Levy Regulations 2006 |

## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Risk and Assurance Quarter 2 Report 2019/20

---

### **This paper will be considered in public**

#### **1 Summary**

- 1.1 The purpose of this report is to inform the Committee of the work completed by the Risk and Assurance Directorate during Quarter 2 of 2019/20, the work in progress and planned to start, and other information about the Directorate's activities.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplemental information and documentation. Subject to the decision of the Committee, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraphs 3, 5 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL, that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders.

#### **2 Recommendation**

- 2.1 **The Committee is asked to note the report and the supplemental information on Part 2 of the agenda.**

#### **3 Background**

- 3.1 This is the quarterly report to the Audit and Assurance Committee highlighting the activities of the five teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Integrated Assurance; Project Assurance; and Fraud.

#### **4 Enterprise Risk Management**

- 4.1 Work is ongoing to review all Level 0 and Level 1 risks quarterly. A list of the Level 0 and Level 1 risks is included in Appendix 1.
- 4.2 The following Level 0 risks have been updated following this quarter's review:
  - (a) Loss of external stakeholder trust (SR6): updates to risk description and causes;

- (b) Inability to deliver predicted revenue growth (SR8): updates to ownership, preventative mitigation actions and post risk event actions.
  - (c) Transformation (SR18): risk re-assessed and overall control rating changed to 'Well Controlled'.
- 4.3 The scope and ownership of Achieving safety outcomes (SR1) is under review given the introduction of the new Chief Safety, Health and Environment Officer role.
- 4.4 Development of the Enterprise Risk Management eLearning course is complete, and the course is ready to be rolled out across the business.
- 4.5 TfL led a risk co-operation workshop as part of the Greater London Authority (GLA) collaboration programme. This included representatives from the Metropolitan Police, MOPAC, London Ambulance Service, London Fire Brigade, and the GLA. The initial workshop focussed on sharing best practice, risk identification and profiling techniques, and barriers and benefits of risk collaboration. A follow up workshop is scheduled for January 2020 where individual organisations will present their approach to risk management.
- 4.6 The Executive Committee has continued to review the Level 0 risks periodically. One or two risks are reviewed in detail at each meeting, and also, there is a review of the overall status of the strategic risks with the opportunity to agree or challenge any risk assessments and discuss upcoming challenges or emerging risks.
- 4.7 By the end of the calendar year, the Executive Committee and a member level Committee or Panel will have reviewed all strategic risks. A review on lessons learned to improve the process for the next cycle will then be undertaken including feedback from Members. The outcome of the review will be reported to the Audit and Assurance Committee.

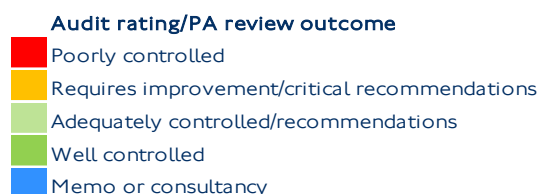
## **5 Audit and Assurance**

- 5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model, as follows:
- (a) First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/ controls;
  - (b) Second line of defence – typically audit and inspection regimes carried out by teams separate from those responsible for managing the risks/ controls, but reporting through the TfL management hierarchy; and
  - (c) Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to Executive Committee, Audit and Assurance Committee and other Board Committees and Panels.

5.2 Within the Risk and Assurance Directorate, the Internal Audit function provides third line assurance, whilst the Integrated Assurance and Project Assurance teams provide second line assurance. Further information of the work of these teams during Q2 is set out below.

5.3 The table below maps the outcomes of audit and project assurance reviews carried out by the teams in Risk and Assurance up to Q2 against the TfL Strategic Risks. If a risk is not listed, this means that no work has been completed against it in the year to date.

|   | ←2nd line assurance |   | Total | ←3rd line assurance |   | Total |    |   |   |
|---|---------------------|---|-------|---------------------|---|-------|----|---|---|
| SRI Achieving safety outcomes                     | 5                   | 2 | 1     | 8                   | 4 | 1     | 5  |   |   |
| SR3 Governance and control suitability            |                     |   |       |                     | 1 | 2     | 3  |   |   |
| SR4 Major cyber security incident                 |                     |   |       |                     | 1 | 1     | 2  |   |   |
| SR6 Loss of external stakeholder trust            |                     |   |       |                     | 1 |       | 1  |   |   |
| SR7 Financial sustainability                      |                     |   | 1     |                     | 1 | 3     | 1  | 2 | 7 |
| SR8 Inability to deliver predicted revenue growth |                     |   |       |                     | 2 |       | 2  |   |   |
| SRI2 Delivery of key investment programmes        | 10                  |   | 18    | 28                  | 1 | 3     | 4  |   |   |
| SRI3 Operational reliability                      | 4                   | 3 | 5     | 1                   |   |       | 13 |   |   |
| LTM   |                     |   |       |                     | 1 |       | 1  |   |   |

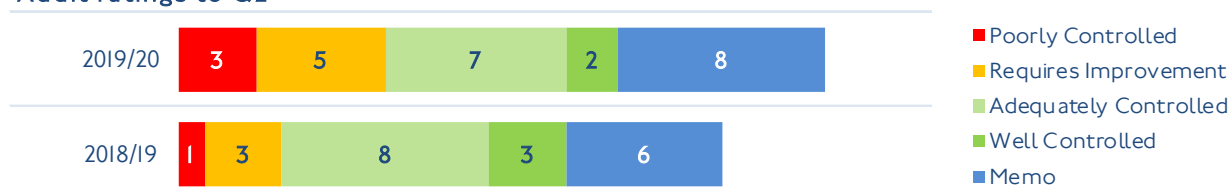


### Internal Audit

5.4 The Internal Audit plan forms part of the integrated assurance plan that the Audit and Assurance Committee approved on 14 March 2019. Schedule 1: Internal Audit Q2 summary includes highlights from work completed during the quarter, an overview of the delivery of the audit plan, a summary of the reports issued and conclusions and information on overdue audit actions.

5.5 The chart below summarises the reports issued during Q2 2019/20, together with comparative figures for 2018/19:

**Audit ratings to Q2**



5.6 At the end of Q2, we delivered 30 per cent (13 audits) of the audit plan. This represents a small increase compared to the same period in 2018/19.

5.7 A full list of audit reports issued during the quarter can be found as Appendix 2. Audits in progress at the end of Q2 can be found in Appendix 3, work planned to start in Q3 can be found in appendix 4, and details of changes to the audit plan

can be found in Appendix 5.

### **Mayoral Directives**

- 5.8 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes.
- 5.9 Since the last meeting of the Committee, there have been three directions to TfL; none of which affected Internal Audit activity during Q2 2019/20:
- (a) Directing TfL in relation to fares for up to two time limited research trials of demand responsive bus services in outer London. (MD2460 on 29 April 2019)
  - (b) Directing TfL to prepare, finance and implement the Ultra-Low Emission Zone Support Scheme. (MD2489 on 9 July 2019)
  - (c) Directing TfL to pay the Mayor's legal costs of defending a legal challenge, and any other costs arising because of the challenge including any appeals. The IWGB trade union, representing private hire vehicle drivers, brought a challenge by way of judicial review of the Mayor's decision to remove the private hire vehicle exemption from the Congestion Charge. (MD2484 on 9 July 2019)

### **Management Actions**

- 5.10 Internal Audit monitors the completion of all management actions and confirms whether management has adequately addressed them. We report by Directorate, on the percentage of actions closed on time over the past six periods. Schedule 1, provides additional information relating to action management trends over the last six periods.
- 5.11 At the last Committee meeting, we highlighted some of the work that Internal Audit had done to monitor and drive timely completion of management actions. Noting the upward trend in the overall number of overdue actions last quarter, the Committee sought additional assurance of timely closure of the priority 1 actions.
- 5.12 Our initial analysis has identified that in the last 13 periods covering Q3 2018/19 to Q2 2019/20, there were 47 Priority 1 actions raised where the due date occurred in the past. Of those, 62 per cent went overdue (missing the agreed deadline) prior to closure. The current year-to-date figure is 69 per cent. Although a relatively small number of open actions are currently overdue, the trend indicates an increased likelihood that over half of all current open actions will also miss their deadline. Due to the relatively low volume of Priority 1 actions raised year-to-date, further analysis is required to understand the root cause.
- 5.13 The committee should note however, that the general profile of overdue management actions has actually improved compared to the same period last year, although we are not complacent. There are a number actions we have taken to further reduce the number and duration of overdue management actions:



- (a) More consistent and proactive escalation of overdue actions within the action owners' management line
- (b) Inclusion of management actions on operational vision boards within Surface Transport, and periodic management reporting which includes action status and trend information (Surface Transport, London Underground, HR and Crossrail, HR) to drive ownership and facilitate early intervention within the line of business
- (c) Revision of internal action follow-up procedures, and new guidance providing a sliding scale of indicative timeframes for the commencement of actions. This allows the business to focus on the higher priority actions first. Additionally, to facilitate meaningful discussions of appropriate closure timescales, the guidance reinforces the requirement for proper assessment of compensating controls that may be in place to mitigate risk
- (d) A reduction in the number of days an action is overdue before a Director is invited to the Committee from 60 down to 50

5.14 We are also considering a number of other measures focused on-time action closure.

#### **Changes to audit plan**

5.15 The ability to adapt the plan in order to respond to changing risk and business priorities is a key part of delivering a valuable Internal Audit service to TfL. The Committee will note a number of changes to the plan this quarter.

5.16 Following our reprioritisation of the plan, we have added one new audit, deferred six audits to the 2020/21 plan to allow the business sufficient time to complete internal control reviews, close operationally identified gaps, embed new processes into the control environment, or to finalise strategy. In addition, we cancelled a further five audits primarily to avoid duplication stemming from second line of defence review activity. The full list of changes can be found in Appendix 5.

#### **Crossrail Audit Service Delivery**

5.17 We have appointed Price Waterhouse Coopers (PWC) as our co-source audit partner focused on delivery of the Crossrail audit plan. The initial contract is for 12 months, with options to extend, and at the time of writing commercial negotiations were at contract award stage.

5.18 The Infrastructure and Projects Authority (IPA) conducted a review of Crossrail's Integrated Assurance Framework on behalf of the joint programme sponsors. The draft report was published for review on 6 November. The IPA makes a critical recommendation in respect of Internal Audit assurance at the third line of defence, as well as a number of other recommendations. The implications of the report were under review at the time of writing.

# Schedule I: Internal Audit Q2 summary

## Audit plan 2019/20 (to Period 7 end)



## Poorly Controlled Reports issued in Q2 2019/20

Cycle Hire: review assessed the adequacy and effectiveness of commercial procedures and controls. Report raised four priority I issues covering income collection and bad debts, refunds, application of service credits and maintenance;

Network and Information Systems (NIS) Regulations – ST: review assessed the adequacy of the governance framework designed for NIS compliance. The report raised five priority I issues covering the absence of a pan-TfL strategy for compliance, incident reporting (TLRN), management and remediation of risk, and agreement over scope of responsibilities (London Overground).

## Notable audits planned during Q3 2019/20

SRI6 Opening of the Elizabeth Line (Crossrail):

- Management and control over project cost forecasting – due 5/12/19
- The strategic approach to workforce planning – due 26/11/19

## Reports

**13** Issued Q2

**29** Issued (to Period 7 end)

## Audit ratings by Directorate – rolling 13 period view

|                 | PC          | RI           | AC           | WC          | M/C*         |
|-----------------|-------------|--------------|--------------|-------------|--------------|
| Crossrail       |             |              |              |             |              |
| CCT             | 1           | 2            | 2            | 1           | 4            |
| Finance         | 3           | 3            | 7            | 1           | 5            |
| Gen. Counsel    |             |              |              |             | 2            |
| HR              |             | 1            | 2            |             | 1            |
| LU              |             | 2            |              |             | 5            |
| Major Projects  |             |              |              |             |              |
| Surface         | 1           | 3            | 2            |             | 2            |
| TfL Engineering |             |              |              |             |              |
| TfL Strategy    |             |              |              |             |              |
| Pan TfL         |             | 3            |              |             |              |
| <b>TOTAL</b>    | <b>9.4%</b> | <b>26.4%</b> | <b>24.5%</b> | <b>3.8%</b> | <b>35.8%</b> |

**PC**: poorly controlled **RI**: requires improvement **AC**: adequately controlled  
**WC**: well controlled **M/C**: memo/consultancy

## Action management (to Period 7 end)

### Overall TfL performance

| Measure         | #  | %   | 6-period trend |
|-----------------|----|-----|----------------|
| Closed on time* | 56 | 48% |                |
| Extended*       | 29 | 25% |                |

**11** overdue

**195** open

### By Directorate

|                 | Overdue | Closed on time* |
|-----------------|---------|-----------------|
| Crossrail       |         |                 |
| CCT             | 1       | 72%             |
| Finance         | 2       | 59%             |
| Gen. Counsel    | 1       | 38%             |
| HR              | 1       | 20%             |
| LU              | 3       | 44%             |
| Major Projects  |         | 33%             |
| Surface         | 2       | 24%             |
| TfL Engineering |         | 89%             |
| TfL Strategy    |         |                 |
| Pan TfL         |         |                 |

\*based on actions due in the last six periods

## **Integrated Assurance**

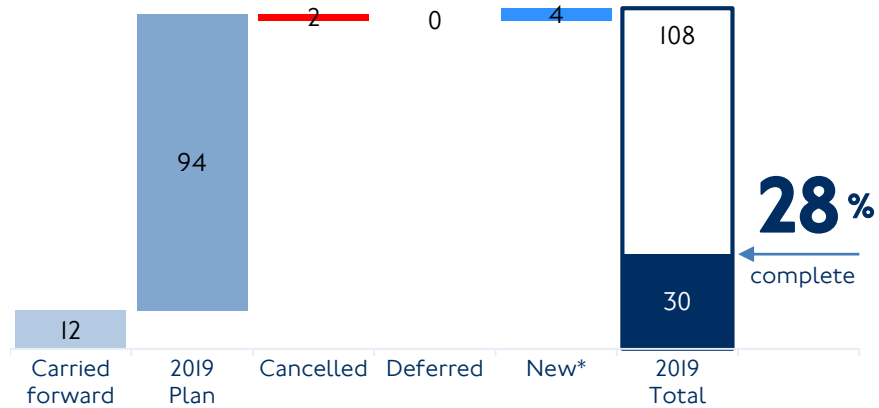
- 5.19 The Integrated Assurance team carries out second line of defence audits, primarily in relation to health and safety and engineering compliance, and compliance with Payment Card Industry Data Security Standard (PCI DSS). Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.
- 5.20 A summary of work carried out by Integrated Assurance can be found in Schedule 2: Integrated Assurance Q2 summary.

## **Project Assurance**

- 5.21 The Project Assurance team carries out assurance reviews of projects and programmes across TfL's Investment Programme, with individual projects selected for review following a risk-based assessment. Generally, projects with an Estimated Final Cost over £50m are also subject to (third line) input from the Independent Investment Programme Advisory Group (IIPAG). However, IIPAG's agreed work-bank is determined by the project's risk profile, which includes some projects less than £50m, and not all sub-programmes are reviewed. The IIPAG Quarterly Report is included separately on the Committee Agenda. Reports from Project Assurance Reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.
- 5.22 Project Assurance also conducts reviews of the sub-programmes to inform their annual request for Authority at the Programmes and Investment Committee.
- 5.23 Project Assurance reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The Project Assurance team follows up on all recommendations to ensure they have been addressed.
- 5.24 A summary of the work completed by Project Assurance during Q2 can be found in Schedule 3: Project Assurance Q2 summary.

# Schedule 2: Integrated Assurance Q2 Summary

## Audit plan 2019/20



### Work complete

We delivered 10 audits in Q2. The programme is currently behind schedule although there is a disproportionately larger number of smaller audits in quarters 3 and 4 which will in progress.

There were 3 audits rated as poorly controlled:

- Trams asset management: asset data is incomplete and not being effectively used to manage asset maintenance,
- Trams power: assurance was weakened by poor quality asset information, incomplete maintenance records and procedural non-compliances
- LU vegetation management: there is a reliance on reacting to reported issues rather than a pro-active management regime

There were audits rated as requires improvement relating to:

- Alstom Northern line train management: the major issue related to exceeding wheel maintenance periodicities.
- Management of change control (LU Renewals and Enhancements): the processes for managing change were inconsistent between projects and not formalised.
- Rail grinding (Schweerbau): the management of competence and fatigue had not been effectively implemented

A successful trial of a new integrated systems audit was completed. The audit provides assurance that LU Customer Services Area Managers are complying with all key HSE, finance and staffing requirements and will be rolled out further in quarters 3 and 4.

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## Reports last 13 periods

### Audit ratings by Directorate – last 13 periods

| Directorate     | PC           | RI           | AC           | WC          | M/C*         |
|-----------------|--------------|--------------|--------------|-------------|--------------|
| Crossrail       |              |              |              |             | 2            |
| CCT             |              |              |              |             | 2            |
| Finance         |              | 1            | 3            |             |              |
| Gen. Counsel    |              |              |              |             |              |
| HR              |              |              |              |             |              |
| LU              | 3            | 9            | 11           | 1           |              |
| Major Projects  |              |              |              |             |              |
| Surface         | 2            | 2            | 2            |             | 3            |
| TfL Engineering |              |              |              |             | 1            |
| TfL Strategy    |              |              |              |             |              |
| Pan TfL         |              |              | 1            | 1           |              |
| <b>TOTAL</b>    | <b>11.9%</b> | <b>28.6%</b> | <b>40.5%</b> | <b>4.8%</b> | <b>14.3%</b> |

KEY  
 PC: poorly controlled  
 RI: requires improvement  
 AC: adequately controlled  
 WC: well controlled  
 M/C: memo/consultancy

## Action management (to Period 3)

| Measure         | #  | %   | 6-period trend |
|-----------------|----|-----|----------------|
| Closed on time* | 48 | 64% |                |
| Extended*       | 28 | 37% |                |

**8** actions overdue  
**10** due this period

### by Directorate

| Directorate     | Overdue | Closed on time* |
|-----------------|---------|-----------------|
| Crossrail       |         | 67%             |
| CCT             |         |                 |
| Finance         |         |                 |
| Gen. Counsel    |         |                 |
| HR              |         |                 |
| LU              | 1       | 73%             |
| Major Projects  |         | 0%              |
| Surface         | 7       | 27%             |
| TfL Engineering |         | 86%             |
| TfL Strategy    |         |                 |
| Pan TfL         |         |                 |

\*based on actions due in the last six periods

## Audit Ratings by Strategic Risk Last 13 Periods

| Strategic Risk                   | 6 | 5 | 4  | 3 | 2 | 1 |
|----------------------------------|---|---|----|---|---|---|
| SRI Achieving safety outcomes    | 6 | 5 | 1  |   |   |   |
| SR4 Major cyber security...      |   |   |    |   |   |   |
| SR7 Financial sustainability     | 5 |   |    |   |   |   |
| SRI3 Operational reliability     | 5 | 6 | 10 | 1 |   |   |
| SRI6 Opening of the Elizabeth... |   |   |    |   |   |   |

## Schedule 3: Project Assurance Q2 Summary

Reviews undertaken this quarter highlight the continued cost pressure on a number of projects, and late notification of cost increases in delivery stages across the station portfolios in both London Underground and London Rail. Business cases are not consistently providing conclusions and there is a lack of portfolio management in key programmes.

### Sub- Programme Reviews

|                     | Recommendations<br>(Critical Issues) | Commentary   |
|---------------------|--------------------------------------|--|
| LU Track & Drainage | 5 (0)                                | The TfL Project Assurance Team completed a project assurance review on the Track Renewals programme submission to the Programmes and Investment Committee meeting in July 2019. Five recommendations were made and accepted, none by IIPAG. Good progress is being made to close the recommendations. The Project Assurance Team tracks progress against the recommendations made as part of its continuous assurance. |
| Healthy Streets     | 13 (0)                               | Recommendations from the last review in July 2019 are still being addressed; these include improving project, programme and portfolio management processes, tools and support; and ensuring the impacts on bus costs and revenue are being consistently addressed. Plans for longer term portfolio lifecycle management are still in development.  |

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### Overdue Recommendations

There are currently 63 open recommendations for the 22 sub-programme reviews, 26 of these are overdue against their original completion date.

### Project Reviews

Project Assurance completed 33 project reviews in Q2. IIPAG participated in 14 of these. From the reviews undertaken a total of 98 recommendations were made, of which eight were critical issues.

|                                  | Critical Issue  | Action Being Taken  |
|----------------------------------|---|---|
| Hammersmith Bridge Refurbishment | No specific funding allocated in Business Plan. Funding strategy required.                                | To be reviewed as part of the Business Planning process based on better understanding of costs. |
| Rotherhithe Tunnel               | Current preferred option Estimated Final Cost is over Financial Authority and the scheme is unaffordable. | This will be reviewed through the business planning process.                                    |

|   | Critical Issue  | Action Being Taken  |
|---|---|---|
| Waterloo City Hub                                   | The required Financial Authority to cover funding gap must be in place before contract award. Approval should be escalated and signed off by CFO if this funding request is to be agreed in advance of business planning. | A cost pressure was identified during concept design, which has now been resolved following value engineering workshops being undertaken. The new estimated final cost continues to be within the range populated by the TfL Estimating team, with more alignment with the revised build estimate that was produced by the contractor after their Early Contractor Involvement works package. |
| Surface Asset Management Information System (SAMIS) | Current preferred option Estimated Final Cost is over Financial Authority and will only deliver Phase I. Scheme is unaffordable.  | Given the business critical nature of SAMIS, supporting safety inspections, condition inspections and defect/fault rectification, it's been agreed under Business Planning to allocate additional funding from minor capital renewals to SAMIS.   |
| Fiveways Junction A23/A232                          | £14.7m funding gap in 2021/22.  | The project is fully funded in the TfL Business Plan. During the 2019/20 business planning round we will either re-phase spend or make other changes to the portfolio to accommodate the revised profile.   |
|   | Due to relatively weak strategic and value for money case, approval should be escalated and signed off by the CFO if this funding request is to be agreed in advance of business planning.                                | The project team will review and further refine the business case to better reflect the strong strategic case for the project. Agreement from the CFO will be sought as suggested   |
| Cycling Future Routes (CFR) - CFR 3                 | Business case should be fully developed in line with TfL guidance, ensuring clear evidence based conclusions provided.  | The business case will be developed further as the required information becomes available during the Concept Design stage. Additional information available now will be added, (e.g. CYNEMON cycling model outputs) ahead of the authority request date.  |
|   | Evidence should be provided to demonstrate that the cycle programme is being managed to the profile of the available financial authority.   | Evidence will be provided.  |

## **Customer Feedback**

- 5.25 The customer feedback data shows a slight increase in the average scores since the last quarter. This is in the context of an improved return rate of 68 per cent in Q2, (62 per cent the previous quarter), and a higher number of 'very good' scores, which has increased the average. A summary of the responses to the questionnaire, together with the comparative figures for the previous quarter is included as Appendix 6.

## **6 Counter-Fraud and Corruption**

- 6.1 The Fraud team carries out investigations in all cases of suspected and alleged fraud. They also carry out a proactive programme of fraud awareness, prevention and detection activities designed to minimise TfL's exposure to fraud risk. A summary of the Fraud Team's activities during Q2, including information on significant closed fraud investigations is set out in Schedule 4: Counter-Fraud and Corruption Q2 Summary.
- 6.2 Details of significant new and ongoing fraud investigations during Q2 can be found in the paper on Part 2 of the agenda.

# Schedule 4: Counter-Fraud and Corruption Q2 Summary

## Fraud Investigation

During Q2, 11 new cases were opened (2018/19 Q2: 16 new cases). Of the 11 newly opened cases, two referrals were received from Human Resources and Finance, one of which was the result of whistleblowing. Four financial investigations were conducted with 19 bank accounts being the subject of preliminary (pre-order) checks

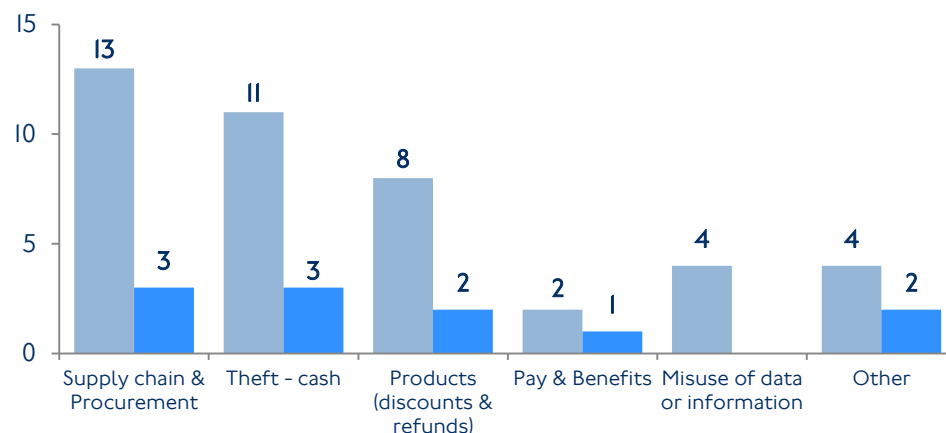
## Fraud prevention

- The inaugural meeting of the Counter-fraud and Corruption Steering Group, chaired by General Counsel, was held in early July. Terms of reference and the counter fraud strategy were agreed. First actions were documented and circulated
- The Fraud Team prepared a fraud awareness training package for TfL Consulting, who will be undertaking a range of commercial activities abroad
- Members of the Fraud Team met with Equifax to finalise a contract for the supply of consumer credit reports to support fraud and financial investigations
- The Fraud Team met with Revenue Control (LU) to arrange a counterfeit ticketing operation across 'high risk' LU stations. The operation, to assess the current scale of counterfeit ticketing in circulation, will take place in Q3.
- The Fraud Team are developing a pan-TfL Communications Plan, based upon our Counter-fraud & Corruption Strategy. The Plan, once agreed, will be publicised.

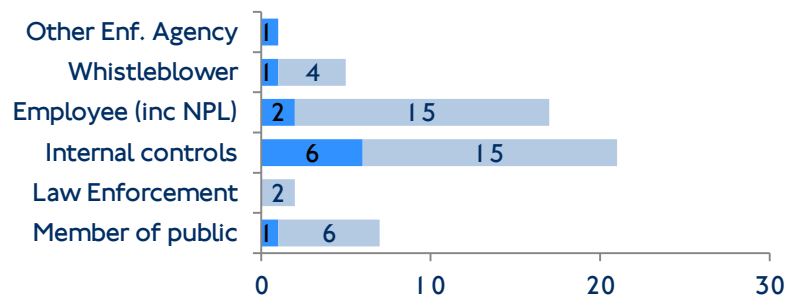
## Cases by directorate

| Investigations    | B/F       | New       | Closed   | C/F       |
|-------------------|-----------|-----------|----------|-----------|
| LU                | 24        | 6         | 2        | 28        |
| Surface Transport | 7         | 0         | 0        | 7         |
| CCT               | 8         | 3         | 3        | 8         |
| Crossrail         | 1         | 0         | 0        | 1         |
| Major Projects    | 1         | 0         | 0        | 1         |
| Commercial Dev.   | 1         | 0         | 0        | 1         |
| Human Resources   | 0         | 1         | 0        | 1         |
| Finance           | 0         | 1         | 0        | 1         |
| <b>Total</b>      | <b>42</b> | <b>11</b> | <b>5</b> | <b>48</b> |

## Cases by type New and Brought Forward



## Cases by source New and Brought Forward



## Significant closed cases

### IA18-710 Theft from Passenger Operated Machine (POM) – Bond Street

A Customer Service Assistant (CSA) stole a total of £8,490 from POM's between 7 April 2018 and 4 May 2018. The employee resigned during an internal investigation. A file was prepared for BTP and he was arrested. He pleaded guilty at court in July 2019 and was sentenced to a suspended prison sentence. He was also ordered to pay £8,490 compensation to TfL. The case is now closed.

### IA18-705 Oyster Customer Service Centre online refund fraud

Two Customer Experience Call Centre employees stole a total of £15,529 between September 2017 and May 2018 by processing 66 fraudulent refunds to personal bank accounts. They were arrested in June 2018 and their contracts terminated. Both pleaded guilty to fraud by abuse of position at Blackfriars Crown Court and received suspended prison sentences. Compensation was not awarded. The Legal Team has agreed a repayment plan with one individual and is seeking a county court judgement against the other. The case is now closed.



## **7 Resources**

- 7.1 At the beginning of Q2 the Directorate was carrying four vacancies: two in Integrated Assurance and one each in Internal Audit and Enterprise Risk.
- 7.2 During Q2 our relatively high levels of staff turnover continued with several new joiners, but also a number of leavers. This included two leavers from the Enterprise Risk team, a Senior Risk Manager and a Risk Manager, both of whom have moved to TfL's Project Risk Management team in PMO, with the former having earned a promotion to head up that team. Since the end of the quarter we have made an external appointment to the Senior Risk Manager post, with the new joiner due to take up her position in December.
- 7.3 Since the end of the quarter we have made an external appointment to the long-vacant Senior Internal Audit Manager – Technology, Information and Security (TIS) position. The new joiner took up his post in late November.
- 7.4 At the end of Q2 there were five vacancies, some of which have since been filled, as noted above, but with staff turnover continuing in Q3.

## **8 Control Environment Trend Indicators**

- 8.1 The Business Services and Finance team has been working with in conjunction with the Finance and Commercial teams to revise the Commercial and Financial indicators following the last Committee. The remaining Q2 indicators are attached as Appendix 7.

### **List of appendices to this report:**

Appendix 1 – Level 0 and Level 1 Risks  
Appendix 2 – Internal Audit reports issued in Q2 2019/20  
Appendix 3 – Work in Progress at the end of Q2 2019/20  
Appendix 4 – Work Planned for Q3 2019/20  
Appendix 5 – Changes to the audit plan at the end of Q2 2019/ 20  
Appendix 6 – Customer Feedback Form – Summary of Responses Q2  
Appendix 7 – Control Environment Trend Indicators

A paper containing exempt supplemental information is included on Part 2 of the agenda.

### **List of Background Papers:**

Audit reports, Project Assurance reports.

Contact Officer: Clive Walker, Director of Risk and Assurance  
Number: 020 3054 1879  
Email: [clivewalker@tfl.gov.uk](mailto:clivewalker@tfl.gov.uk)

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| Level 0 TfL Strategic Risks |  |   |  |   |
|-----------------------------|--|---|--|---|
| #                           | Risk   | Owner   | Manager                                    | Mayor's Transport Strategy / Corporate Strategy |
| SR1                         | Achieving safety outcomes                        | Managing Director – Surface Transport           | Chief Safety, Health & Environment Officer | MTS: Healthy streets and healthy people         |
| SR2                         | Talent attraction and retention                  | Chief People Officer                            | Head of Strategic Planning and Governance  | CS: People                                      |
| SR3                         | Governance and controls suitability              | General Counsel                                 | Director of Legal                          | MTS: All MTS outcomes                           |
| SR4                         | Major cyber security incident                    | MD Customer, Communications & Technology        | Director of Strategy and CTO               | MTS: A good public transport experience         |
| SR5                         | Technological or market developments             | MD Customer, Communications & Technology        | Director of Innovation                     | MTS: All MTS outcomes                           |
| SR6                         | Loss of external stakeholder trust               | MD Customer, Communications & Technology        | Director of News and External Relations    | MTS: All MTS outcomes                           |
| SR7                         | Financial sustainability                         | MD - Chief Finance Officer                      | Acting Group Finance Director              | CS: Finance                                     |
| SR8                         | Inability to deliver predicted revenue growth    | Director of Commercial Development              | Divisional Finance Director (CD)           | MTS: New homes and jobs                         |
| SR9                         | Inability to meet changing demand                | Director of Strategy & Chief Technology Officer | Head of TfL Business Strategy              | MTS: New homes and jobs                         |
| SR11                        | Significant technology failure                   | MD Customer, Communications & Technology        | Director of Strategy and CTO               | MTS: A good public transport experience         |
| SR12                        | Delivery of key investment programmes            | Director of Major Projects                      | Head of TfL PMO                            | MTS: All MTS outcomes                           |
| SR13                        | Operational reliability                          | LU Managing Director                            | Director of Asset Operations               | MTS: A good public transport experience         |
| SR14                        | TfL's environmental impact                       | Director of City Planning                       | Head of Transport Strategy and Planning    | MTS: Healthy streets and healthy people         |
| SR15                        | Resilience to climate change and extreme weather | Director of City Planning                       | Head of Transport Strategy and Planning    | MTS: All MTS outcomes                           |
| SR16                        | Opening of the Elizabeth Line                    | Commissioner                                    | Director, Elizabeth Line Operations        | MTS: New homes and jobs                         |
| SR17                        | TfL Protective Security                          | Managing Director – Surface Transport           | Director Compliance Policy & On-Street     | MTS: Healthy streets and healthy people         |
| SR18                        | Transformation                                   | Transformation Director                         | Head of TfL Change Delivery                | CS: People                                      |

| Level 1 London Underground Strategic Risks |  |  |   |   |
|--|--|--|---|---|
| #  | Risk   | Owner                                    | Manager                                   | Mayor's Transport Strategy / Corporate Strategy |
| LU-01                                      | LU Industrial relations  | LU Managing Director                     | Director of Line Operations               | CS: People                                      |
| LU-02                                      | LU Staff attraction and retention  | Chief People Officer                     | LU - Head of HR                           | CS: People                                      |
| LU-03                                      | LU Operational reliability   | LU Managing Director                     | Director of Asset Operations              | MTS: A good public transport experience         |
| LU-04                                      | LU Revenue forecasts   | LU Divisional Finance Director           | LU Senior Divisional Financial Controller | CS: Finance                                     |
| LU-05                                      | LU Cost savings  | LU Divisional Finance Director           | LU Senior Divisional Financial Controller | CS: Finance                                     |
| LU-06                                      | LU Major incident - internal   | Director of Line Operations              | Head of Network Delivery                  | MTS: A good public transport experience         |
| LU-07                                      | LU Major incident - external   | Director of Line Operations              | Head of Network Delivery                  | MTS: A good public transport experience         |
| LU-08                                      | Significant operational cyber security risk (threat) to core LU control system | LU Managing Director                     | Director of Strategy and CTO              | MTS: A good public transport experience         |
| LU-09                                      | LU safety framework ineffective  | Director of HSE                          | Head of HSE LU                            | MTS: Healthy streets and healthy people         |
| LU-10                                      | LU Data loss, misuse or breach of GDPR   | Chief of Staff                           | Investment Planning & Efficiency Manager  | CS: Finance                                     |
| LU-11                                      | Elizabeth Line revenue assumptions incorrect                                   | LU Divisional Finance Director           | Head of Finance (Elizabeth Line)          | CS: Finance                                     |
| LU-12                                      | Inability to deliver R&E programmes and projects                               | LU Director of Renewals and Enhancements | Head of PMU                               | All MTS themes: All MTS outcomes                |

| Level 1 Surface Transport Strategic Risks |  |  |   |   |
|---|--|--|---|---|
| #   | Risk   | Owner                                    | Manager   | Mayor's Transport Strategy / Corporate Strategy |
| ST-02                                     | Inability to deliver Bus income target   | Director of Bus Operations               | Head of Bus Tendering & Evaluation              | MTS: A good public transport experience         |
| ST-03                                     | Inability to deliver the Investment Programme  | Director of Project & Programme Delivery | Head of Projects & Programmes Delivery (Assets) | MTS: All MTS outcomes                           |
| ST-04                                     | Inability to maintain Highway Infrastructure asset base                              | Investment Delivery Planning Director    | Head of Asset Investment                        | MTS: Healthy streets and healthy people         |
| ST-07                                     | Disruption to quality of service due to planned or unplanned events                  | Director of Network Management           | Head of Control Centre Operations               | MTS: A good public transport experience         |
| ST-08                                     | Inability to attract, recruit, engage, develop and retain talent in key competencies | Director of CPOS                         | Head of Business Partnering                     | CS: People                                      |
| ST-09                                     | Continued declining bus patronage  | Director of Bus Operations               | Bus Operational Policy Manager                  | MTS: A good public transport experience         |
| ST-10                                     | Disruptive technology undermines core business                                       | Director of Innovation                   | Senior Policy Manager                           | All MTS themes: All MTS outcomes                |

| Level 1 Surface Transport Strategic Risks (continued) |   |  |   |  |
|---|---|--|---|--|
| #   | Risk  | Owner                                      | Manager                                   | Mayor's Transport Strategy / Corporate Strategy  |
| ST-11   | Achieving health, safety and environmental outcomes and performance | Chief Safety, Health & Environment Officer | Senior HSE Manager                        | MTS: Healthy streets and healthy people  |
| ST-12   | Major cyber security incident                                       | CTO & Director of CE                       | Head of T&D - Surface                     | MTS: A good public transport experience  |
| ST-16   | Inability to source new revenue stream for roads                    | Divisional Finance Director (ST)           | Senior Divisional Financial Controller    | CS: Finance  |
| ST-17   | Protective Security   | Director of CPOS                           | Snr Op Security & Crime Reduction Manager | MTS: Healthy streets & healthy people: London's transport system will be safe & secure |
| ST-18   | Reliability of the new Class 710 rolling stock                      | Director, Rail & Sponsored Services        | General Manager London Overground         | MTS: A good public transport experience  |

| Level 1 Commercial Development Strategic Risks |   |                                    |                                  |   |
|--|---|------------------------------------|----------------------------------|---|
| #  | Risk  | Owner                              | Manager                          | Mayor's Transport Strategy / Corporate Strategy |
| CD-01  | Inability to deliver predicted revenue growth | Director of Commercial Development | Divisional Finance Director (CD) | MTS: New homes and jobs                         |
| CD-02  | Landlord compliance with legislation          | Director of Commercial Development | Estates Management Director      | MTS: Healthy streets & healthy people           |
| CD-03  | Compliance with Mayor's housing strategy      | Director of Commercial Development | Property Development Director    | MTS: New homes & jobs                           |
| CD-04  | Building security                             | Director of Commercial Development | Estates Management Director      | MTS: Healthy streets & healthy people           |

| Level 1 Professional Services Strategic Risks   |   |                             |                               |   |
|---|---|-----------------------------|-------------------------------|---|
| #   | Risk  | Owner                       | Manager                       | Mayor's Transport Strategy / Corporate Strategy |
| Work is in progress to identify and agree the Level 1 risks across the Professional Services areas. |   |                             |                               |   |
| Engineering   |   |                             |                               |   |
| ENG-01  | The key customers and stakeholders of TfL Engineering do not fully understand or appreciate the purpose of TfL Engineering and the value it can provide | Director of TfL Engineering | COO Engineering               | All MTS themes: All MTS outcomes                |
| ENG-02  | TfL is not compliant with its Railways & Other Guided Transport Systems (ROGS) regulations or equivalent safety regulations for other asset types.      | Director of TfL Engineering | Head of Technical Engineering | MTS: Healthy streets & healthy people           |
| ENG-03  | TfL Engineering is unable to deliver its purpose to the wider TfL organisation i.e. it does not provide a   | Director of TfL Engineering | COO Engineering               | MTS: A good public transport experience         |

| Level 1 Professional Services Strategic Risks |  |  |   |   |
|---|--|--|---|---|
| #   | Risk   | Owner                                  | Manager                                   | Mayor's Transport Strategy / Corporate Strategy |
|   | planned and agreed service provision   |  |   |   |
| ENG-04  | TfL Engineering is unable to attract and retain the required quantity of skilled / experienced / competent resources   | Director of TfL Engineering            | Head of Technical Engineering             | CS: People                                      |
| ENG-05  | TfL Engineering fails to maintain a suite of Technical & Data standards that protects TfL operational control systems from Cyber-attack, plus assure that these standards are being adhered to | Director of TfL Engineering            | Head of Technical Engineering             | MTS: Healthy streets & healthy people           |
| General Counsel                               |  |  |   |   |
| GC-01   | Significant Legal Non-Compliance   | Director of Legal                      | Director of Legal                         | All MTS themes: All MTS outcomes                |
| GC-02   | Insufficient legal resource to meet demand from the business   | Director of Legal                      | Director of Legal                         | All MTS themes: All MTS outcomes                |
| GC-03   | Significant non-compliance with FOI Act/EIRs   | Head of Information Governance and DPO | Information Access Manager                | All MTS themes: All MTS outcomes                |
| GC-04   | Significant non-compliance with GDPR and other privacy legislation   | Head of Information Governance and DPO | Head of Privacy and Data Protection       | All MTS themes: All MTS outcomes                |
| GC-05   | Inadequate TfL Management System   | Head of Information Governance and DPO | Head of TfL Management Systems            | All MTS themes: All MTS outcomes                |
| GC-06   | Failure to deliver improvement to the quality of R&A outputs to support decision making  | Director of Risk and Assurance         | Head of Integrated Assurance              | All MTS themes: All MTS outcomes                |
| GC-07   | Assurance activities fail to reflect and address business risks and concerns   | Director of Risk and Assurance         | Head of Integrated Assurance              | All MTS themes: All MTS outcomes                |
| Human Resources                               |  |  |   |   |
| HR-01   | Inability to attract the right skills, talent and capability to deliver our Business Plan and Mayoral commitments  | Chief People Officer                   | Director of Diversity, Inclusion & Talent | CS: People                                      |
| HR-02   | Inability to retain the right skills, talent and capability to deliver our Business Plan and Mayoral commitments   | Chief People Officer                   | Director of Diversity, Inclusion & Talent | CS: People                                      |
| HR-03   | Low or declining employee engagement   | Chief People Officer                   | Head of Strategic Planning & Governance   | CS: People                                      |
| HR-04   | Pay becomes neither fair nor equal   | Chief People Officer                   | Director of Compensations & Benefits      | CS: People                                      |
| HR-05   | Employee Relations climate deteriorates  | Chief People Officer                   | Director of Business Partnering & ER      | CS: People                                      |
| HR-06   | Failure to deliver and   | Chief People                           | Head of Strategic                         | CS: People                                      |

| Level 1 Professional Services Strategic Risks |  |   |  |   |
|---|--|---|--|---|
| #   | Risk   | Owner   | Manager  | Mayor's Transport Strategy / Corporate Strategy |
|   | embed ongoing Organisational Change  | Officer   | Planning & Governance                                  |   |
| HR-07   | TfL Pension Fund funding   | Chief People Officer                            | Director of Compensations & Benefits                   | CS: People                                      |
| HR-08   | Continuing to deliver a seamless Hire to Retire process with Business Services for our customers                               | Chief People Officer & Transformation Director  | Head of Strategic Planning & Governance                | CS: People                                      |
| Tech & Data                                   |  |   |  |   |
| T&D-02  | T&D is unable to attract the right resources within the budget and timeframe required which significantly impacts project work | Director of Strategy & Chief Technology Officer | Head of Strategy                                       | CS: People                                      |
| T&D-03  | TfL loses role in providing digital services directly to customers, and hence an important policy lever                        | Director of Strategy & Chief Technology Officer | Head of Digital  | MTS: A good public transport experience         |
| T&D-05  | Ineffective TfL operating model with respect to technology results in significant increased costs                              | Director of Strategy & Chief Technology Officer | Head of Technology & Data - LU                         | CS: People                                      |
| T&D-06  | Loss, misuse, or breach of GDPR for data owned by Tech & Data  | Director of Strategy & Chief Technology Officer | Chief Data Officer                                     | All MTS themes: All MTS outcomes                |
| T&D-09  | Over programming - Demand for deliverables/ projects exceeds capacity, causing inefficiency in delivery.                       | Director of Strategy & Chief Technology Officer | Head of Technology Programmes                          | All MTS themes: All MTS outcomes                |
| T&D-10  | Political pressure to change ticketing policy  | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Payments                   | MTS: A good public transport experience         |
| T&D-11  | A significant purchase of IT software, hardware, and services do not comply with the T&D strategy                              | Director of Strategy & Chief Technology Officer | Head of Procurement & Supply Chain - Indirect Services | CS: Finance                                     |
| T&D-17  | Reliance on oligopoly suppliers for payment processing.  | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Payments                   | CS: Finance                                     |
| T&D-19  | Extreme weather and climate change effects cause damage to technology assets.  | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Surface Transport          | CS: Finance                                     |
| T&D-21  | Over-reliance on current ticketing supplier reduces competition at contract re-procurement                                     | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Payments                   | CS: Finance                                     |
| T&D-22  | Theft or fraud in the revenue collection process rises to an unacceptable level  | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Payments                   | CS: Finance                                     |
| T&D-23  | Risk of ticketing systems failure/systemic corruption.   | Director of Strategy & Chief Technology Officer | Head of Technology & Data - Payments                   | CS: Finance                                     |
| T&D-24  | Significant or multiple failures of customer facing  | Director of Strategy & Chief Technology         | Head of Technology Services Operations                 | CS: Finance                                     |

| Level 1 Professional Services Strategic Risks |  |   |   |   |
|---|--|---|---|---|
| #   | Risk   | Owner   | Manager                                     | Mayor's Transport Strategy / Corporate Strategy |
|   | and key internal systems. (Service performance decrease)   | Officer   |   |   |
| T&D-31  | TfL is not ready for the switchover from Public Switch Telephone Network (PSTN) to Voice over Internet Protocol (VoIP) | Director of Strategy & Chief Technology Officer | Head of Transformation Portfolio - Networks | CS: Finance                                     |
| T&D-32  | Software managed by T&D is not compliant with software licencing agreements  | Director of Strategy & Chief Technology Officer | Head of Technology Services Operations      | CS: Finance                                     |

| Level 1 Major Projects Directorate Strategic Risks |  |                            |                               |   |
|--|--|----------------------------|-------------------------------|---|
| #  | Risk   | Owner                      | Manager                       | Mayor's Transport Strategy / Corporate Strategy |
| MPD-01   | Lack of TfL non-MPD resources, especially Engineering and Commercial                                     | Head of Programme          | Head of Programme             | CS: People                                      |
| MPD-02   | Poor Supplier Performance  | Director of Major Projects | Head of Programme             | MTS: A good public transport experience         |
| MPD-03   | Lack of Resilience in Access and Closures Plans  | Director of Major Projects | Head of Delivery - Access     | MTS: A good public transport experience         |
| MPD-04   | Major Engineering risks (eg software defects)  | Head of Engineering MPD    | Head of Engineering MPD       | MTS: Healthy streets and healthy people         |
| MPD-05   | Imperfect coordination of interfaces with Network Rail   | Head of Programme          | Senior Commercial Manager NRA | MTS: A good public transport experience         |
| MPD-06   | Scope Creep due to requirements for non-conformance rectification and asset condition worse than assumed | Head of Programme          | Head of Programme             | MTS: A good public transport experience         |
| MPD-07   | Crossrail delay may impact on other TfL programmes   | Director of Major Projects | Director of Major Projects    | MTS: All MTS outcomes                           |
| MPD-08   | MPD projects cancelled, descope or deferred as funds reprioritised                                       | Head of Programme          | Head of Programme             | CS: Finance                                     |
| MPD-09   | External Consents delay projects   | Head of Programme          | Head of Programme             | MTS: A good public transport experience         |
| MPD-10   | Projects increased costs due to inability to hand over to Asset Operations                               | Head of Programme          | Head of Programme             | CS: Finance                                     |



## Transport for London Audit and Assurance Committee

### Internal audit reports issued in Q2 2019/20

### Appendix 2

#### Grouped by Strategic Risk

- Thirteen reports were issued during the quarter

| Strategic risk                        | Directorate       | Audit title  | Objective  | Issued period | Last action date | Conclusion           | Current status | P1 | P2 | P3 |
|---------------------------------------|-------------------|--|--|---------------|------------------|----------------------|----------------|----|----|----|
| Achieving safety outcomes             | LU                | Occupational Health  | To provide assurance on the adequacy and effectiveness of the current operating model and level of service provided to the organisation  | 6             | 31/03/2020       | Requires Improvement | Follow-up      | 2  | 2  | 0  |
|                                       | Surface Transport | Effectiveness of the new safety complaints process                       | To provide assurance that the new complaints process is effective and efficient  | 4             | 28/08/2020       | Requires Improvement | Follow-up      | 0  | 5  | 1  |
| Delivery of key investment programmes | Finance           | Re-tender of the Project & Programme Management Services Framework (PSF) | To provide assurance that the procurement of the Programme and Project Management Services Framework (component of the PSF 2) is managed effectively, in accordance with approved procedures, the Public Contracts Regulations | 4             |                  | Real-time Memo       | Complete       | 0  | 0  | 0  |
|                                       |                   | Re-tender of the Transport Planning and Impact Monitoring (PSF)          | To provide assurance that the procurement of the Transport Planning and Impact Monitoring Framework is managed effectively in accordance with approved procedures  | 4             |                  | Real-time Memo       | Complete       | 0  | 0  | 0  |

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| Strategic risk                                | Directorate                           | Audit title   | Objective   | Issued period | Last action date | Conclusion            | Current status | P1 | P2 | P3 |
|---|---------------------------------------|---|---|---------------|------------------|-----------------------|----------------|----|----|----|
| Financial sustainability                      | Customers, Communication & Technology | Business Services E2E Processes                               | To advise on the adequacy of the 'End to End' (E2E) process designs by reviewing the proposed processes and suggesting improvements where necessary, in order to facilitate the achievement of Business Services' objectives        | 5             |                  | Advisory Memo         | Complete       | 0  | 0  | 0  |
| Financial sustainability                      | Customers, Communication & Technology | Clean Mobile Energy Cost Certification                        | To certify costs in respect of EU funding for clean mobile energy (third review)  | 6             |                  | Grant Memo            | Complete       | 0  | 0  | 0  |
|   | Finance                               | Delivery of the Major Accommodation Property Programme (MAPP) | To provide assurance on the accuracy of financial savings reported as part of the MAP Programme   | 4             |                  | Well Controlled       | Complete       | 0  | 0  | 0  |
| Governance and control suitability            | Surface Transport                     | Cycle Hire  | To provide assurance over the operation of key business and financial controls following signing of a new contract and implementation of the revised back office and governance arrangements between Serco and Cubic from July 2017 | 4             | 01/10/2019       | Poorly Controlled     | Follow-up      | 4  | 1  | 0  |
| Inability to deliver predicted revenue growth | Finance                               | Governance of Over Site Development (OSD) sites               | To provide assurance on the strategy for optimising revenue from the delivery of OSD sites  | 5             | 31/01/202        | Adequately Controlled | Follow-up      | 0  | 0  | 2  |
| Inability to deliver predicted revenue        | Finance                               | Strategy for Delivering the Mayors Housing Targets            | Provide assurance on the adequacy of the strategy to deliver the Mayor's affordable housing target and future   | 6             | 31/03/2020       | Adequately Controlled | Follow-up      | 0  | 3  | 1  |

## Transport for London Audit and Assurance Committee

| Strategic risk                     | Directorate                           | Audit title   | Objective  | Issued period | Last action date | Conclusion            | Current status | P1        | P2        | P3       |
|------------------------------------|---------------------------------------|---|--|---------------|------------------|-----------------------|----------------|-----------|-----------|----------|
| growth                             |                                       |   | revenue.   |               |                  |                       |                |           |           |          |
| Loss of external stakeholder trust |                                       | Procurement of Energy for London: SSQ - up to Contract Award          | The objective of this audit is to provide assurance that the procurement process for the Energy for London project is effective. | 5             |                  | Real-time Memo        | Complete       | 0         | 0         | 0        |
| Major cyber security incident      | Customers, Communication & Technology | Data Privacy and Protection – Marketing Data Security                 | To evaluate the adequacy of security governance and controls relating to marketing data  | 6             | 31/10/2019       | Adequately Controlled | Follow-up      | 0         | 2         | 0        |
|                                    |                                       | Network and Information Systems (NIS) Regulations - Surface Transport | To provide assurance over the adequacy of the framework designed for the governance of NIS compliance within TfL                 | 6             | 31/03/2020       | Poorly Controlled     | Follow-up      | 5         | 1         | 1        |
| <b>Total</b>                       |                                       |   |  |               |                  |                       |                | <b>11</b> | <b>14</b> | <b>5</b> |

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## Transport for London Audit and Assurance Committee

### Work in progress at the end of Q2 2019/20

### Appendix 3

#### Grouped by Strategic Risk

- Ten audits were in progress at the end of Q2

| Strategic risk                     | Directorate                           | Audit title   | Objective  | Current status |
|------------------------------------|---------------------------------------|---|--|----------------|
| Financial sustainability           | Customers, Communication & Technology | Software Licence Management   | Assess the framework and process controls in place to manage risks associated with software licensing across TfL         | In Planning    |
|                                    | Finance                               | Allowances Overtime and Higher Duty Pay Process                                       | To provide assurance on the adequacy and effectiveness of controls in place for allowances, overtime and higher duty pay | In Progress    |
|                                    |                                       | Governance of Foreign Vendor Invoices   | To provide assurance on the adequacy and effectiveness of controls in place for processing foreign vendor invoices       | Reporting      |
|                                    | HR                                    | Ill Health Retirees Process   | To provide assurance on the adequacy and effectiveness of controls in place for employees retiring due to ill health     | In Planning    |
|                                    | Surface Transport                     | DfT Local Highways Funding  | To certify costs in respect of DfT funding for Local Highways  | Complete       |
|                                    |                                       | TfL Revenue Protection Programme – Accuracy of Projects' contributions to £10m target | To review and advise on the calculation of projects' contributions to the 2019/20 fare evasion £10m reduction target     | In Progress    |
| Governance and control suitability | Customers, Communication & Technology | Third Party Supplier Review - Journeycall   | To provide assurance over the adequacy and effectiveness of key controls   | Follow-up      |

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| Strategic risk                                | Directorate                           | Audit title  | Objective   | Current status |
|---|---------------------------------------|--|---|----------------|
| Inability to deliver predicted revenue growth | Finance                               | Delivery of the Build to Rent (BtR) Strategy         | Provide assurance on the adequacy of the strategy to ensure cost effective delivery of the BtR homes  | Follow-up      |
|   |                                       | Management of Property Voids and the Arches Strategy | To provide assurance that the commercial processes for the management of voids is efficient and effective in minimising loss of revenue and the arches strategy is effective for generating revenue | Follow-up      |
| Talent attraction and retention               | Customers, Communication & Technology | Nominee Passes                                       | To provide assurance on the adequacy and effectiveness of controls in place for nominee passes  | Reporting      |
| <b>Total</b>                                  |                                       |  |   | <b>10</b>      |

## Transport for London Audit and Assurance Committee

### Work planned to start in Q3 2019/20

### Appendix 4

Grouped by planned period

- There are 20 audits planned to start during the quarter

| Strategic risk                                | Directorate                           | Ref    | Audit title   | Objective   | Planned period |
|---|---------------------------------------|--------|---|---|----------------|
| Financial sustainability                      | Finance                               | 19 609 | Management of the ONE Facilities Management (FM) Contract | Provide assurance on the effective management of the ONE FM contract  | 8              |
| Governance and control suitability            | Surface Transport                     | 19 006 | Payments to Local Authorities using the Borough Portal    | To provide assurance on the effective management of the borough portal  |                |
| Financial sustainability                      | Finance                               | 19 012 | Budget Planning and Forecasting (ST)                      | To review the adequacy and effectiveness of the ST budget planning and forecasting processes  |                |
| Inability to deliver predicted revenue growth |                                       | 19 619 | Land Authority Governance Process                         | Provide assurance on the effectiveness of the implementation plan for the purchase and sale of land   |                |
| Transformation                                | Customers, Communication & Technology | 19 126 | Transformation  | To provide assurance on the adequacy and effectiveness of controls in place for Transformation  |                |
| Governance and control suitability            | Finance                               | 19 605 | Re-tender of the Recruitment Services Framework-SSQ       | To provide assurance that the procurement of the Recruitment Services Framework is managed effectively in accordance with approved procedures |                |
| Financial sustainability                      |                                       | 19 117 | Use of Consultants  | To provide assurance on the adequacy and effectiveness of controls in place for the use of consultants  |                |

## Transport for London Audit and Assurance Committee

| Strategic risk  | Directorate                           | Ref    | Audit title  | Objective  | Planned period |
|---|---------------------------------------|--------|--|--|----------------|
| Opening of the Elizabeth Line - FC1 AFC/DFC exceeds the funding envelope  | Crossrail                             | 19 503 | Management and Control Over Project Cost Forecasting                                   | To provide assurance over the adequacy and effectiveness of project cost forecasting controls including 'Anticipated Final Cost' (AFC)   | 8              |
| Governance and control suitability  | Finance                               | 19 600 | Procurement of the Professional Services Framework (PSF) - Engineering Consultancy-SSQ | To provide assurance that the procurement of the Procurement of the Professional Services Framework (PSF) -Engineering Consultancy is managed effectively in accordance with approved procedures |                |
| Inability to deliver predicted revenue growth   | Customers, Communication & Technology | 19 610 | Governance over the JC Decaux advertising contract                                     | Provide assurance that robust contract management controls are in place to ensure accurate reporting of income   |                |
| Talent attraction and retention   | HR                                    | 19 106 | TfL Safeguarding Effectiveness   | To provide assurance on the effectiveness of safeguarding controls   |                |
| Opening of the Elizabeth Line - Eo1 Earliest Opening plan does not demonstrate Crossrail's ability to deliver the programme | Crossrail                             | 19 507 | Management of Programme Schedule   | To provide assurance over the adequacy of the EOP strategy and effectiveness of schedule management and reporting  | 9              |
| Financial sustainability – London Transport Museum  |                                       | 19 100 | Financial Controls   | Review the adequacy and effectiveness of key financial processes and controls.   |                |
| Significant technology failure  | Customers, Communication & Technology | 19 410 | Active Directory Controls: Follow-up   | To provide assurance that appropriate action has been taken to control weaknesses identified during 2017/18 to bring risks within acceptable tolerance   |                |
|   |                                       | 19 406 | Asset Refresh Strategy (T&D)   | Review the effectiveness of the strategies for renewing assets in the context of current financial constraints, and the impact it has on the risk of system failure                              |                |



## Transport for London Audit and Assurance Committee

| Strategic risk  | Directorate                           | Ref    | Audit title                                 | Objective  | Planned period |
|---|---------------------------------------|--------|---|--|----------------|
| Opening of the Elizabeth Line - RB2 Governance effect on decision making                        | Crossrail                             | 19 506 | Governance and Organisational Effectiveness | To provide assurance over the adequacy and effectiveness of arrangements designed to ensure timely project delivery  | 9              |
| Financial sustainability  | Surface Transport                     | 19 013 | Cost escalation in projects                 | To review the effectiveness of cost controls in projects and programmes  |                |
|   | Finance                               | 19 011 | Delegated Project Authority Controls        | To provide assurance on the adequacy and effectiveness controls to ensure project related spend is authorised in accordance with TfL's Scheme of Authorities |                |
| TfL's environment impact  | Customers, Communication & Technology | 19 412 | IT Hardware Decommissioning                 | To review the effectiveness of the end-to-end decommissioning process for IT equipment   |                |
| Opening of the Elizabeth Line - HS1 Increased delivery pressure will impact the focus on safety | Crossrail                             | 19 502 | Safety Assurance Arrangements               | To provide assurance over the adequacy of arrangements governing safe transition from construction to rail operations  |                |
| <b>Total</b>  |                                       |        |   | <b>20</b>  |                |

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## Transport for London Audit and Assurance Committee

### Changes to the 2019/20 audit plan

### Appendix 5

- There were eleven changes to the plan since the last committee: 1 new, 7 deferrals, and 5 cancellations.

| Ref    | Audit title                                      | Status  | Audit Comments   |
|--------|--|---|--|
| 19 127 | DfT Local Highways Funding                       | New   | New high-priority management request to certify that a £2.74m grant from the DfT, for additional Highway Maintenance, was used in alignment with predefined conditions   |
| 19 001 | Effectiveness of the ULEZ Scheme                 | Deferred  | Audit deferred to Q1 of 2020/21 to allow for a full year of ULEZ operations. The objective is to provide assurance on the adequacy and effectiveness of controls in place for ULEZ   |
| 19 612 | Governance over the Global advertising contract  |   | Audit deferred to the 2020/21 plan because negotiations with Global had not concluded. The objective is to provide assurance that robust contract management controls are in place to ensure accurate reporting of income  |
| 19 602 | Procurement Governance                           |   | Audit deferred to 2020/21 plan because of the transformation timelines for Procurement & Supply Chain. It will follow transformation in real time  |
| 19 402 | Cybersecurity Assurance (Pan TfL)                |   | Audit deferred to 2020/21 plan because business plans to improve Cybersecurity and incorporate NIS. Timelines for this, together with ongoing activity to Cybersecurity related actions mean a further audit would not be of value at this time                    |
| 19 102 | Modern Slavery Act                               |   | Audit deferred to 2020/21 plan while LT Museum completes internal control review. May potentially expand to a pan-TfL audit  |
| 19 109 | Risk Management Framework                        |   | Audit deferred following reprioritisation of the audit plan and agreement from Head Enterprise Risk Management   |
| 19 010 | City Planning Estimating and Forecasting Process |   | Audit deferred to the 20/21 audit plan to avoid duplication of scope and effort while our Project Assurance team (2LOD) completes its review. Internal audit will review the outcome and consider what additional assurance is necessary from an audit perspective |
| 19 002 | Consulting Projects                              |   | Audit deferred to 2020/21 plan due to pending revisions to the TfL consulting strategy and business case. The objective is to provide assurance that the strategy for delivering income from Consultancy projects is viable  |
| 19 618 | Right Financial Solution (RFS) Project           |   | Cancelled  |
| 19 124 | Taxi Delicensing                                 | Audit cancelled to avoid duplication of effort while the Transformation team carry out a business improvement review of Taxi Delicensing; will move to audit plan long list |  |
| Ref    | Audit title                                      | Status  | Audit Comments   |

## Transport for London Audit and Assurance Committee

|        |  |           |  |
|--------|--|-----------|--|
| 19 110 | Management Information Reporting Suite     | Cancelled | Audit cancelled following reprioritisation of the audit plan and agreement from the Group Finance Director   |
| 19 005 | Principal Designer (CDM) Arrangements - ST |           | Audit cancelled to avoid duplication of scope while our Integrated Assurance team (2LOD) completes their review covering the same topic. Additionally, we are currently planning a separate but related audit: Principal Designer (LU) |
| 19 105 | TfL People Strategy                        |           | Audit cancelled following significant planning, that confirmed that the TfL People Strategy is not yet ready for review  |

### Risk and Assurance Audit Teams Customer Feedback Form Summary of Responses for 2019/20 Quarter 2

We send a customer feedback form to our principal auditee at the conclusion of each audit. This table sets out the questions asked and the responses, including a selection of the freeform comments that we have received.

**Customer Feedback Forms Sent: Q2 =22 (Q1 = 33 )**

**Customer Feedback Forms Returned: Q2 =15 (Q1 = 21)**

**Appendix 6**

| ASSIGNMENT ASSESSMENT CRITERIA   | No score given |    | Very poor |   | Poor |   | Satisfactory |    | Good |    | Very good |    | Average Score |            |            |
|--|----------------|----|-----------|---|------|---|--------------|----|------|----|-----------|----|---------------|------------|------------|
|  | Q1             | Q2 | 1         | 2 | 3    | 4 | 5            | Q1 | Q2   | Q1 | Q2        | Q1 | Q2            | Q1         | Q2         |
| <b>PLANNING AND TIMING</b>   |                |    |           |   |      |   |              |    |      |    |           |    |               | <b>3.9</b> | <b>4.2</b> |
| The assignment timing was agreed with me and there was appropriate consideration of my other commitments as the work progressed  | 0              | 0  | 0         | 0 | 1    | 1 | 6            | 2  | 7    | 4  | 7         | 8  | 4.0           | 4.3        |            |
| The assignment was completed and the report issued within appropriate timescales   | 0              | 0  | 0         | 1 | 2    | 0 | 7            | 1  | 6    | 6  | 6         | 7  | 3.8           | 4.2        |            |
| <b>COMMUNICATION</b>   |                |    |           |   |      |   |              |    |      |    |           |    |               | <b>3.9</b> | <b>4.1</b> |
| Communication prior to the assignment was appropriate, including the dates and objectives  | 0              | 1  | 0         | 0 | 1    | 0 | 7            | 4  | 7    | 2  | 6         | 8  | 3.9           | 4.3        |            |
| Throughout the assignment I was informed of the work's progress and emerging findings  | 0              | 0  | 0         | 1 | 1    | 1 | 6            | 1  | 9    | 6  | 5         | 6  | 3.9           | 4.0        |            |
| <b>CONDUCT</b>   |                |    |           |   |      |   |              |    |      |    |           |    |               | <b>4.0</b> | <b>4.2</b> |
| The Internal Audit team demonstrated a good understanding of the business area under review and associated risks, or took time to build knowledge and understanding as the work progressed | 0              | 0  | 0         | 1 | 1    | 0 | 7            | 2  | 6    | 7  | 7         | 5  | 3.9           | 4.0        |            |
| The Internal Audit team acted in a constructive, professional and positive manner  | 0              | 0  | 0         | 0 | 1    | 2 | 5            | 1  | 6    | 2  | 9         | 10 | 4.1           | 4.3        |            |
| <b>RELEVANT AND USEFUL ADVICE AND ASSURANCE</b>  |                |    |           |   |      |   |              |    |      |    |           |    |               | <b>4.0</b> | <b>4.2</b> |
| A fair summary of assignment findings was presented in the report  | 0              | 1  | 0         | 0 | 0    | 0 | 5            | 3  | 10   | 5  | 6         | 6  | 4.0           | 4.2        |            |
| Assignment recommendations were constructive, practical and cost-effective   | 0              | 1  | 0         | 0 | 0    | 1 | 6            | 2  | 10   | 6  | 5         | 5  | 4.0           | 4.1        |            |
| My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations  | 0              | 0  | 0         | 0 | 2    | 1 | 4            | 1  | 10   | 4  | 5         | 9  | 3.9           | 4.4        |            |
| <b>Overall assessment</b>  |                |    |           |   |      |   |              |    |      |    |           |    |               | <b>3.9</b> | <b>4.2</b> |

**Other comments including suggested improvements and areas of good performance:**

*Planning & Timing: The re-work feedback timescales provided were very short*

*Planning & Timing: Report was issued in a reasonable time.*

*Conduct: It was a complex project area and the team took time to review and understand all of the documentation provided in detail.*

*Conduct: SSJs are an important area where TfL needs to do better - with better analysis and understanding, the report could have been more meaningful. Having said that ,the team did finally take on board the feedback provided and the end report was more effective than the draft version.*

*Conduct: I wasn't kept informed but I expect my team was. I didn't view this as a problem*

*Advice and Assurance: I think that the difficulty here is that whilst this was a Cycle Hire instructed Audit the majority of the management of the services under review are managed by CCO T/D which made the allocation of actions difficult to agree. I felt this put the Auditor in a difficult position as there was a reluctance to accept actions.*

*Advice and Assurance: Recommendations are good although hard for us to implement. If I can find a way to deal with the identified issues.*

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Control Environment – Trend Indicators

| Audit indicators – rolling average        |             |             |             |             |          |          |          |          |       |
|---|-------------|-------------|-------------|-------------|----------|----------|----------|----------|-------|
|   | Q1<br>18/19 | Q2<br>18/19 | Q3<br>18/19 | Q4<br>18/19 | Q1 19/20 | Q2 19/20 | Q3 19/20 | Q4 19/20 | Trend |
| Poorly Controlled                         | 7.2%        | 3.6%        | 6.4%        | 8.5%        | 8.7%     | 11.8%    |          |          |       |
| Requires Improvement or Poorly Controlled | 20.8%       | 23.6%       | 25.5%       | 31.9%       | 34.8%    | 37.3%    |          |          |       |

| Technology                   |             |             |             |             |          |          |          |          |       |
|------------------------------|-------------|-------------|-------------|-------------|----------|----------|----------|----------|-------|
|                              | Q1<br>18/19 | Q2<br>18/19 | Q3<br>18/19 | Q4<br>18/19 | Q1 19/20 | Q2 19/20 | Q3 19/20 | Q4 19/20 | Trend |
| Internal system availability | 100.00%     | 99.97%      | 99.78%      | 99.76%      | 99.85%   | 99.95%   |          |          |       |

| Information Governance |             |             |             |             |                   |          |          |          |       |
|------------------------|-------------|-------------|-------------|-------------|-------------------|----------|----------|----------|-------|
|                        | Q1<br>18/19 | Q2<br>18/19 | Q3<br>18/19 | Q4<br>18/19 | Q1 19/20          | Q2 19/20 | Q3 19/20 | Q4 19/20 | Trend |
| Number FOI requests    | 3034        | 2973        | 2903        | 3025        | 3055 <sup>1</sup> | 3147     |          |          |       |
| On time FOI responses  | 91.7%       | 92.3%       | 93.3%       | 95.3%       | 96.7%             | 97.1%    |          |          |       |

<sup>1</sup> FOI data correction for Q1 19/20: previously reported as 2884 requests and 95.8% because a category of FOI was missed.

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Procurement and Supply Chain – Addressing the Findings of Internal Audit and Ernst & Young

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**This paper will be considered in public**

### **1 Summary**

1.1 The purpose of this paper is to provide an update on the key actions being taken by the Procurement and Supply Chain (PS&C) to address the weaknesses identified in four separate Internal Audits undertaken during financial year 2018/19 and confirmed by Ernst & Young (EY) TfL's External Auditors.

### **2 Recommendation**

2.1 **That the Committee notes the paper.**

### **3 Background**

3.1 During the financial year 2018/19, Internal Audit identified a number of actions for the procurement and supply chain through the completion of four separate audits:

- (a) 2018 18 600 Single Sourcing Governance Assurance (Surface Transport);
- (b) 2018 18 607 Governance and Financial Controls for the use of Framework suppliers (Vendor A);
- (c) 2018 18 608 Governance and Financial Controls for the use of Framework suppliers (Vendor B); and
- (d) 2017 17 612 Single Sourcing Governance Assurance (London Underground).

3.2 The four internal audit reports were shared with EY who also performed additional testing. EY's findings were consistent with Internal Audit conclusions.

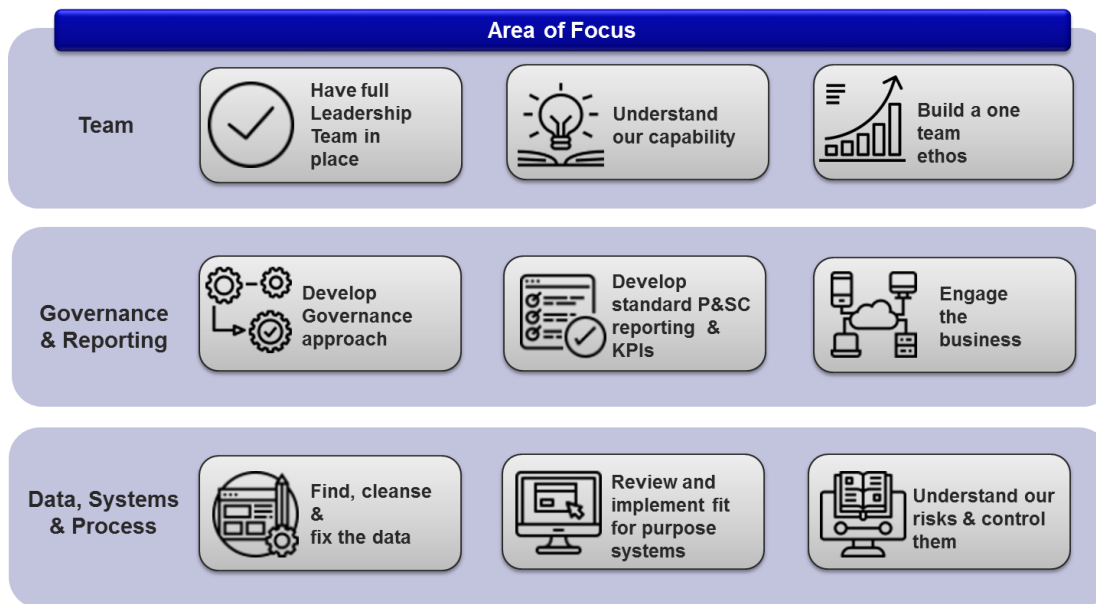
### **4 Business as Usual Activities and Interim Controls**

4.1 In the short term a number of business as usual actions are being carried out by the Procurement and Supply Chain team to address the audit findings. These include the development of updated guidance on the current policies and processes, the development of procurement pipelines and tracking and reporting of all non-competitive transactions. The results and outputs of each action will be assured by Internal Audit to ensure each audit finding is addressed.

4.2 Additionally, interim controls have been introduced meaning procurements face increased challenge from a variety of individuals, including Divisional Finance Directors and the Chief Procurement Officer prior to being approved.

## 5 Improvement Programme

5.1 P&SC has launched an improvement programme which will transform the function in order to create an effective, strategic and robust market-focussed service, delivering clear and demonstrable commercial value to TfL. This will be achieved by:



5.2 The programme will focus on improving P&SC's performance, effectiveness, efficiency and value. A number of the high priority areas identified through the audit findings relate to governance, policy and processes. It is expected that a new P&SC governance framework will be launched in the summer 2020.

### Appendices to this report:

None.

### List of Background Papers:

None.

Contact Officer: Jonathan Patrick, Chief Procurement Officer  
 Number: 020 3054 7334  
 Email: JonathanPatrick@tfl.gov.uk

## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Critical Accounting Policies

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### **This paper will be considered in public**

#### **1 Purpose and decision required**

- 1.1 To update the Audit and Assurance Committee on the TfL 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 2020.
- 1.2 This update reflects any changes to the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting (the Code) and any other changes to International Financial Reporting Standards (IFRS) which may have an impact on TfL's Statement of Accounts for the year ending 31 March 2020.

#### **2 Recommendation**

- 2.1 **The Committee is asked to note the report.**

#### **3 Background**

- 3.1 TfL's Statement of Accounts is prepared in accordance with the provisions of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (the Regulations). The form and content followed in preparing the Statements are as prescribed in the Regulations and by the Code. The accounting policies followed are also substantially as prescribed by the Code.
- 3.2 The Code is updated annually by the CIPFA/LASAAC Joint Committee, a standing committee of the CIPFA and LASAAC, and is based on European Union Adopted IFRS, with adaptations and interpretations considered necessary for the local government context. The 2019/20 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or after 1 April 2019.
- 3.3 This paper deals with changes to the critical accounting policies as they relate to the accounts for the year ending 31 March 2020.

## **4 Developments in 2019/20 Code**

4.1 The 2019/20 Code introduces a number of amendments as follows:

- (a) updates to reflect the issuance of the International Accounting Standards Board March 2018 IFRS Conceptual Framework for Financial Reporting, including:
  - (i) amendments to the guidance surrounding the qualitative characteristics of useful financial information;
  - (ii) new definition of assets, liabilities, income and expenditure;
  - (iii) updated guidance regarding the recognition and derecognition criteria for assets and liabilities; and
  - (iv) more guidance on measurement bases; and
- (b) new guidance on the accounting treatment for the apprenticeship levy.

4.2 There are other minor changes not applicable to TfL. Neither the changes listed above nor any other changes to the Code are expected to have an impact on TfL's financial statements for the year ended 31 March 2020.

## **5 Other developments in Accounting Standards: IFRS 16 Leases (IFRS 16)**

5.1 IFRS 16 is effective for years beginning on or after 1 January 2019 for entities reporting under full EU adopted IFRS, including Transport Trading Limited and its subsidiaries (the TTL Group). However, the Code has deferred application for Local Authorities until years beginning on or after 1 April 2020. Thus, although currently the TTL Group must apply IFRS 16 from 1 April 2019, the TfL Group cannot apply it until 1 April 2020. We are currently consulting with CIPFA to allow TfL to adopt IFRS 16 early, from 1 April 2019, to ensure consistency of information presented across the TfL Group. This is critical to ensure users of the accounts have access to reliable, accurate and consistent financial information across all external financial statements.

5.2 CIPFA has delayed announcing its decision regarding early adoption until the Office for National Statistics (ONS) has issued guidance as to the classification of certain classes of leased infrastructure asset for National Accounts purposes. This classification work is currently underway and we are assisting ONS with its enquiries surrounding specific lease types.

5.3 IFRS 16 has replaced the current guidance in IAS 17 on leases. The standard provides a single lessee accounting model requiring lessees to recognise right-of-use assets and lease liabilities for all leases, in a manner similar to the current treatment of finance leased assets. Instead of lease payments being charged to the income and expenditure statement through operating expenditure (as has previously been the case for operating leases), the income and expenditure

statement is instead charged with a notional depreciation charge in relation to the right-of-use asset. Payments made under the lease are apportioned between a financing charge to the income and expenditure statement and repayment of the lease liability.

- 5.4 Lessors continues to classify leases as operating or finance leases, with IFRS 16's approach to lessor accounting remaining substantially unchanged from the IAS 17 approach.
- 5.5 The definition of, and guidance surrounding, what constitutes a lease has changed. The historic operating lease commitment disclosures did not capture the full population of leases that would have been caught by the new standard. We have reviewed significant contracts across the Group as part of implementation of the new accounting standard and have concluded that TfL's bus service contracts contain a lease element in relation to the bus assets under IFRS 16. Conversely, most of the rail access arrangements, previously disclosed as operating lease commitments in the notes to the accounts, are no longer considered a lease under IFRS 16.
- 5.6 TfL has acquired the MRI Horizon software tool to perform the IFRS 16 calculations for circa 1,200 operating leases (excluding property leases) across the Group. The output from this software has been successfully tested both internally and by Ernst & Young and been proven mathematically accurate. The record keeping for TfL's c. 70 property leases, and the IFRS 16 calculations thereon, have been outsourced to BNP Paribas, who also use the MRI Horizon software.
- 5.7 For TfL, as a lessee, this standard is expected to have a significant impact. TfL's Group financial statements for 2018/19 show that, as at 31 March 2019, the Group had future financial commitments on operating leases (where TfL is a lessee) amounting to £1,779.5m (£1,835.8m less rail access arrangements of £56.3m). Added to this number would be amounts in relation to the following: the lease of bus assets, the Elizabeth line rolling stock lease for the portion of trains delivered until 31 March 2020 and the London Overground rolling stock lease for the portion of the trains delivered until 31 March 2020. Discounting these lease liabilities to their present value is expected to result in the recognition of a right-of-use asset and lease liability on TfL's Group balance sheet as at 31 March 2020 in the range of £2.2bn - £2.5bn (value derived based on set of assumptions). Of this figure approximately £0.6bn relates to property leases managed by BNP Paribas. Training on process changes, controls and finalisation of the accounting policy for leases will be completed by December 2019.
- 5.8 If early adoption for the TfL Group is not permitted, we will quantify the impact of IFRS 16 on the TfL Group in a disclosure note to the TfL annual report for the year ending 31 March 2020.

## **6 Future Changes to IFRS**

6.1 Other standards and interpretations mandatory for years commencing on or after 1 January 2020 include:

- (a) amendments to IFRS 3 definition of a business; and
- (b) amendments to IAS 1 and IAS 8 definition of Material.

6.2 These are not expected to have a material impact on TfL.

### **List of appendices to this report:**

None

### **List of Background Papers:**

None

Contact Officer: Antony King, Interim Group Finance Director  
Number: 020 7126 2880  
Email: [AntonyKing@tfl.gov.uk](mailto:AntonyKing@tfl.gov.uk)

## Audit and Assurance Committee

**Date:** 3 December 2019

**Item:** Cyber Security Update

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### This paper will be considered in public

#### 1 Summary

- 1.1 This paper seeks to assure the Committee of TfL's compliance with cyber security regulation within the operational environments of London Underground and Surface Transport.
- 1.2 A paper is included in Part 2 of the agenda which contains exempt supplemental information and documentation. Subject to the decision of the Committee, this paper is exempt and is therefore not for publication to the public or press by virtue of paragraph 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to action which might be taken in relation to prevention, investigation or prosecution of a crime.

#### 2 Recommendation

- 2.1 The Committee is asked to note the paper and the related supplementary information on Part 2 of the agenda.

#### 3 Current Status

- 3.1 The regulatory landscape has changed significantly over the past 18 months with the introduction of the Network and Information Systems (NIS) Regulations. Several TfL services are currently in-scope of this regulation: London Underground, London Overground, Docklands Light Railway and the Transport for London Road Network.
- 3.2 TfL have complied with all our obligations under the NIS Regulations to date.
- 3.3 There is ongoing work to ensure continued compliance with the NIS Regulations. Detail of this work is presented in Part 2 of the agenda.

#### Appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

#### List of Background Papers:

None

Contact Officer: Shashi Verma, Chief Technology Officer  
Number: 020 3054 4001  
Email: [shashiverma@tfl.gov.uk](mailto:shashiverma@tfl.gov.uk)

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Update on Strategic Risk 11: Major Technology Failure

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### This paper will be considered in public

#### 1 Summary

- 1.1 On the 14 November 2018, the Committee received an update on TfL's new Enterprise Risk Management Framework, the Enterprise Risk Assessment Matrix and the TfL strategic risks, including the three risks that fall within the remit of this Committee and would be reported on in future.
- 1.2 This paper provides an update on how TfL manages Strategic Risk 11 (SR11) – Major Technology Failure.
- 1.3 A paper is included on Part 2 of the agenda, which contains exempt supplemental information pertaining to the strategic risk deep dive. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL that is commercially sensitive and likely to prejudice TfL's commercial position. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

#### 2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplemental information provided on Part 2 of the agenda**

#### List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

#### List of Background Papers:

14 November 2018 Panel paper on Strategic Risk Management Update

Contact Officer: Shashi Verma, Chief Technology Officer  
Number: 020 3054 0709  
Email: [shashiverma@tfl.gov.uk](mailto:shashiverma@tfl.gov.uk)

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Strategic Risk Update - Transformation (SR18)

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### **This paper will be considered in public**

#### **1 Summary**

- 1.1 This paper provides information on Strategic Risk 18 (SR18): The impact of Transformation on Mayoral commitments and business priorities, specifically how the risks are monitored and mitigated.
- 1.2 The probability of this risk occurring is considered low and the overall design and operation of the control measures is assessed to be well controlled. Of the six controls (five preventative controls and one corrective control) five have been assessed as being partially effective.
- 1.3 The full SR18 risk template is included as an exempt appendix to this paper on Part 2 of the agenda as it contains details of the impact and probability of the risks. Subject to the decision of the Committee, the risk template is exempt and is therefore not for publication to the public or press by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of TfL.

#### **2 Recommendation**

- 2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda.**

#### **3 Overview**

- 3.1 This paper provides information on Strategic Risk 18 (SR18): The impact of Transformation on Mayoral commitments and business priorities, specifically how the risks are monitored and mitigated.
- 3.2 Further Transformation activity is planned to help deliver the TfL Business Plan, to reduce our operating costs and achieve financial sustainability. There is a risk that delivery of large scale Transformation could have a negative impact on the organisation's ability to effectively deliver our commitments to the Mayor, including the Mayor's Transport Strategy, and maintain business performance and safety across our network.
- 3.3 SR18 Transformation is a specific risk over and above the general engagement and financial risks covered in other Strategic Risks. It is focussed on maintaining performance through change.
- 3.4 Transformation activity is periodically reviewed at the Developing our Business Executive Committee meetings.

## 4 Risk Assessment

4.1 The key causes that would relate to risk exposure, and the potential consequences of these are detailed below:

|   | Causes   | Consequences  |
|---|--|---|
| <b>Delivery &amp; Governance</b>              | <ul style="list-style-type: none"> <li>• During Consultation or transition to new structures and ways of working, disputes could arise with Trade Unions or staff could become distracted or disengaged.</li> <li>• The development of proposals non-frontline areas could fail to assess and mitigate impact of changes on frontline services</li> </ul>  | <ul style="list-style-type: none"> <li>• Negative impact on the business area's ability to maintain performance through transition or during a dispute.</li> <li>• Indirectly or directly leads to an operational incident directly attributed to Transformation.</li> </ul>  |
| <b>Design &amp; Operating Model Coherence</b> | <ul style="list-style-type: none"> <li>• Interfaces between business areas affected by change proposals are not fully considered or unclear, before the change is delivered.</li> <li>• Business areas are re-structured to meet targets but critical activities are not identified and prioritised.</li> <li>• Reduced staff capacity or business area budgets could limit our ability to allocate sufficient resources or investment.</li> </ul> | <ul style="list-style-type: none"> <li>• Implementation of change proposals do not adequately support the delivery of business priorities; potentially impacting support for frontline operations.</li> <li>• Business areas may struggle to maintain business-as-usual activity with reduced resources increasing pressure on staff; leading to wellbeing issues. Focusing on non-essential activity may lead to reputational damage with stakeholders.</li> <li>• TfL may struggle to meet Mayoral or business priorities. Or business areas may negate financial benefits by investing in further resources or capital.</li> </ul> |

4.2 The probability of the risk occurring is considered low and the overall design and operation of the control measures is assessed to be well controlled. However, as Transformation activity remains on-going we still consider this to be a Strategic Risk that we need to manage. The probability and impact of the risk and the control measures to address it are regularly reviewed and are always reassessed following any significant issues arising.

## 5 Controls and Mitigations

- 5.1 There are five preventative controls and one corrective control.
- 5.2 Of the five preventative controls, one has been assessed as effective for both design and operation:
- (a) Organisational Design Support - The Transformation Design Team supports business areas with development of best practice designs which contribute to a coherent, more efficient operating model that enables us to continue delivering against business priorities.
- 5.3 Of the remaining four preventative controls, all were assessed as effective for their design but partially effective for their operation:
- (b) Design Gate Assurance - The Transformation team in conjunction with HR act as custodians of our approach to delivering change as set out in the 'supporting our people through change' toolkit. Transformation workstreams follow a consistent lifecycle where readiness for the next stage is assessed against set criteria, including design engagement and justification for proposals.
  - (c) Prioritisation Framework – This is available for all Transformation workstreams to ensure the appropriate activity analysis is undertaken before proposals are finalised - this should help mitigate the risk that business critical activities are de-prioritised or stopped.
  - (d) Transition Readiness - Before new structures can be implemented, all workstreams are subject to a Transition Readiness Assurance checkpoint. This is an objective assessment that appropriate steps have been taken to ensure business performance and safety will not be negatively affected when a business area stands up its new structure.
  - (e) Communications and Stakeholder Engagement - In line with the strategy set out in 'supporting our people through change toolkit', clear communication will clarify the rationale for change and emphasise the importance of continuing to deliver business priorities. All communications reference wellbeing support available.
- 5.4 The sole corrective control has been assessed as effective for its design but partially effective for its operation:
- (f) Post-implementation review – Executive Committee members with accountability for Transformation activity are encouraged to carry out post-implementation reviews to ensure their business areas are continuing to support the highest priority initiatives and contributing to Mayoral priorities.

5.5 Actions have been agreed by the Executive Committee to address the partial effectiveness of the controls to further reduce TfL's risk exposure. These are listed below:

| No | Action  |
|----|---|
| 1  | To adapt the TfL Change Plan to focus it on three key areas which will support delivery of the 2019 Business Plan: Deliver LU Modernisation; Complete Back and Middle Office Transformation; and Address performance issues and improve effectiveness in the long term. |
| 2  | The Transformation Team to work collaboratively with the business and HR colleagues to identify how we increase our focus on process and ways of working change.  |
| 3  | To learn lessons from recent change programmes and adapt and improve our 'supporting our people through change' toolkit so that teams are supported in their efforts to maintain business performance through change.   |
| 4  | To engage with senior leadership to identify other areas where duplication, lack of efficiency or savings opportunities should be explored to further simplify and contribute to our financial challenge without negatively impacting business performance.             |
| 5  | To engage with senior leadership on the long term development of our Operating Model.   |

**List of appendices to this report:**

A paper containing exempt supplemental information is included on Part 2 of the agenda.

**List of Background Papers:**

None

Contact Officer: Andrew Pollins, Transformation and Business Services Director  
 Number: 020 30548109  
 Email: [AndrewPollins@tfl.gov.uk](mailto:AndrewPollins@tfl.gov.uk)

## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Register of Gifts and Hospitality for Members and Senior Staff

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### **This paper will be considered in public**

#### **1 Summary**

1.1 This paper sets out details of the gifts and hospitality declared by the Board and senior staff. This report covers the period 1 August to 31 October 2019. Details of the gifts and hospitality accepted by Members and the most senior staff are already routinely published on our website.

#### **2 Recommendation**

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

#### **3 Background**

3.1 TfL's policy on gifts and hospitality applies to TfL Board Members, all staff who work for TfL and staff contracted to work for TfL including on advisory groups or through a third party. It covers both gifts and hospitality offered directly or offered through a spouse or partner.

3.2 The policy was last reviewed and updated in November 2017. It starts from the premise that any gifts or hospitality offered should usually be declined. No offer should be accepted where there is a possibility, or a perception, of being influenced by it. The guidance provides advice on the few circumstances where acceptance might be appropriate but, as a guiding principle, Members and staff are advised to err on the side of caution. Acceptance of any offer requires line manager approval and an explanation as to why acceptance is appropriate.

3.3 Board Members and staff are required to register with the General Counsel any gift or hospitality received in connection with their official duties that has a value of £25 or over, and also the source of the gift or hospitality. For staff, declarations are made at the end of every month. As the acceptance of any offers of gifts or hospitality by Members is uncommon, they are asked to confirm any declarations at the end of every quarter. Offers accepted by Members and the most senior staff are then reviewed and published on [tfl.gov.uk](http://tfl.gov.uk) on a quarterly basis.

3.4 Gifts and hospitality declarations from Members, the Commissioner and Managing Directors, the General Counsel and the Chief Finance Officer have been published on [tfl.gov.uk](http://tfl.gov.uk) since 2012.

- 3.5 As part of the revised GLA Group Framework Agreement, considered by the Board on 22 September 2016, we committed to also provide a regular report to the Audit and Assurance Committee on the gifts and hospitality accepted. For these reports, the staff coverage has been extended to all staff that appear on the top level organisation chart published on <https://tfl.gov.uk/corporate/about-tfl/how-we-work/corporate-governance/chief-officers>.

## 4 Reporting Period and Issues for Consideration

- 4.1 Appendix 1 sets out gifts and hospitality declared by senior staff over the three month period from 1 August to 31 October 2019 (the latest reporting period). There were no declarations by Members during this period.
- 4.2 A total of 163 declarations were made by senior staff in relation to gifts and hospitality offered at a value of £25 or over within the period covered by the report (three months). A total of 112 offers were declined and 51 were accepted. Table 1 provides a summary of the number of offers accepted and declined by senior staff who received more than 10 offers during the period.

**Table 1: Staff receiving more than 10 offers during the reporting period**

| Name           | Role                               | Offers | Accepted | Declined |
|----------------|------------------------------------|--------|----------|----------|
| Glynn Barton   | Director Network Management        | 11     | 7        | 4        |
| Mike Brown MVO | Commissioner                       | 28     | 8        | 20       |
| Graeme Craig   | Director of Commercial Development | 31     | 6        | 25       |
| Stephen Field  | Director of Pensions and Reward    | 16     | 4        | 12       |

- 4.3 Table 2 shows the figures provided in previous reports since August 2018 and then breaks these down to a monthly average for each period reported, to enable some trend analysis.
- 4.4 On a monthly average basis, the actual number of offers received has fluctuated from a high of 64 to a low of 43. The number of offers received in the latest period (August to October 2019) fall within that range and are slightly less than in the same reporting period in 2018 (August to October 2018), though the number of offers accepted is higher.



- 4.5 The offers received and accepted have been reviewed to ensure they comply with the policy and guidance. Where there are concerns that the policy or guidance is not being followed, these are raised with the member of staff and their line manager.

**Table 2: Figures reported to previous meetings and monthly averages**

|                                     | <b>01/08/18-<br/>31/10/18</b> | <b>01/11/18-<br/>31/01/19</b> | <b>01/02/19-<br/>30/04/19</b> | <b>01/05/19-<br/>31/07/19</b> | <b>01/08/19-<br/>31/10/19</b> |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Period reported to Committee</b> | 3 months                      | 3 months                      | 3 months                      | 3 months                      | 3 months                      |
| Total offers                        | 167                           | 193                           | 128                           | 145                           | 163                           |
| Total declined                      | 137                           | 136                           | 94                            | 110                           | 112                           |
| Total accepted                      | 30                            | 57                            | 34                            | 35                            | 51                            |
| <b>Monthly average</b>              |                               |                               |                               |                               |                               |
| Total offers                        | 56                            | 64.3                          | 43                            | 48.3                          | 54.3                          |
| Total declined                      | 46                            | 45.3                          | 31                            | 37                            | 37.3                          |
| Total accepted                      | 10                            | 19                            | 11                            | 12                            | 17                            |

**List of appendices to this report:**

Appendix 1 – Gifts and Hospitality Register, Members and Senior Staff 1 August to 31 October 2019

**List of Background Papers:**

Corporate Gifts and Hospitality Register

Contact Officer: Howard Carter, General Counsel  
 Number: 020 3054 7832  
 Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)

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**Gifts and Hospitality - TfL Board Members and Senior Officers  
1 August - 31 October 2019**

| <b>Name of Officer</b> | <b>Donor/Provider of Gift/Hospitality</b> | <b>Detail of Gift/Hospitality</b>  | <b>Reason for Accepting Gift / Hospitality</b>     | <b>Date of Event/Hospitality</b> |
|------------------------|---|--|--|----------------------------------|
| Adams Simon            | Railway Industry Association              | Round table discussion and dinner.                                       | Supply Chain Engagement                            | 04/09/2019                       |
| Barton Glynn           | ADEPT                                     | ADEPT National Traffic Managers' Conference - Leicester                  | Networking   | 03/10/2019                       |
| Barton Glynn           | Siemens - Wilke Reints                    | London Transport Annual Dinner and Auction                               | Networking   | 22/10/2019                       |
| Barton Glynn           | Charlie Henderson - PA consulting         | Roads sector strategy - Exclusive Round table discussion at the RAC Club | Building relationships                             | 01/10/2019                       |
| Barton Glynn           | JCT                                       | JCT Traffic Signals Symposium and MOVA User Group - Nottingham           | Network management presentation on traffic signals | 16/09/2019                       |
| Barton Glynn           | Safer Highways - Kevin Robinson           | Safer Highways Live 2019 - Silverstone                                   | Speaking engagement                                | 11/09/2019                       |
| Barton Glynn           | Autism Research trust - Elizabeth Coyne   | Autism Centre of Excellence - campaign event                             | Speaking engagement                                | 26/09/2019                       |
| Barton Glynn           | ITS World Congress                        | ITS Singapore  | Speaking engagement                                | 21/10/2019                       |
| Brown Matt             | Transport Times                           | National Transport Awards  | Networking   | 31/10/2019                       |
| Brown Mike             | London First                              | London Infrastructure Summit Dinner                                      | Speaking engagement                                | 12/09/2019                       |
| Brown Mike             | Nigel Harris, Rail Magazine               | National Rail Awards Black Tie dinner                                    | Representing TfL                                   | 19/09/2019                       |
| Brown Mike             | Neil Kirby, MD, SSE Enterprise            | VIP Event - Addressing the Skills Challenge in the Rail Sector           | Key Stakeholder                                    | 25/09/2019                       |
| Brown Mike             | Australia British Chamber of Commerce     | ABIC Conference Catalyst Dinner  | Speaking engagement                                | 02/10/2019                       |

**Gifts and Hospitality - TfL Board Members and Senior Officers  
1 August - 31 October 2019**

|               |   |   |   |            |
|---------------|---|---|---|------------|
| Brown Mike    | Australia British Chamber of Commerce               | ABIC in London Dinner   | Speaking engagement   | 01/10/2019 |
| Brown Mike    | Australia British Chamber of Commerce               | ABIC Dinner with NSW Minister for Transport                     | Networking  | 29/09/2019 |
| Brown Mike    | Young Bus Managers Network                          | Young Bus Manager's Conference                                  | Speaking engagement   | 08/10/2019 |
| Brown Mike    | Howard Johnston, Chairman, Dinner at the Roundhouse | The Railway Industry Dinner at the Roundhouse                   | Networking  | 17/10/2019 |
| Chapman Helen | Sherbet London, Mr Asher Moses                      | Taxi for 2 from Dalston to Liverpool street station             | Back to back meetings; time constraint from one to another at differing locations | 03/09/2019 |
| Clark George  | IMEchE  | IMEchE - Chairman's address & dinner                            | Promote TfL Engineering   | 09/09/2019 |
| Clark George  | Siemens   | National Rail Awards 2019                                       | Promoting TfL Engineering   | 19/09/2019 |
| Craig Graeme  | New London Architecture                             | New London Architecture Conversazione Dinner for Senior Leaders | Networking Event  | 03/09/2019 |
| Craig Graeme  | British Land  | Chairman's Reception - Part of London Design Festival 2019      | Networking Event  | 11/09/2019 |
| Craig Graeme  | The McAlpine Family                                 | The McAlpine Family 150th Anniversary Reception                 | Networking Event  | 12/09/2019 |
| Craig Graeme  | Movers and Shakers                                  | Breakfast Speaker Event   | Networking Event  | 13/09/2019 |
| Craig Graeme  | Deloitte  | Annual Drinks - Reception                                       | Networking Event  | 10/10/2019 |
| Craig Graeme  | Sir Ed Lister                                       | Regenerating Cities Book Launch                                 | Networking Event  | 17/10/2019 |
| Dent Nick     | Socia Limited                                       | Dinner with David Archer, Socia Limited                         | Engagement with consultancy that provides 1 to 1 leadership coaching              | 01/10/2019 |
| Dix Michèle   | British Construction                                | Attend awards Dinner  | Networking opportunity to promote Crossrail 2                                     | 09/10/2019 |

**Gifts and Hospitality - TfL Board Members and Senior Officers**  
**1 August - 31 October 2019**

|               |  |   |   |            |
|---------------|--|---|---|------------|
| Field Stephen | Neil Lalley, Principal, XPS Pensions Group               | London Pensions Conference and Lunch                            | CPD and Networking                                    | 03/10/2019 |
| Field Stephen | Sophia Singleton, Partner and Head of DC Consulting, Aon | Aon DC Conference   | CPD and Networking                                    | 18/09/2019 |
| Field Stephen | Ian Pittaway, Partner, Sackers                           | Sackers Spotlight Dinner  | Networking  | 11/09/2019 |
| Field Stephen | Ian Skinner, Willis Towers Watson                        | Annual Service Review Meeting and Lunch                         | Annual Review Meeting and networking                  | 11/10/2019 |
| Fox Jonathan  | Arriva   | London Transport Annual Dinner and Auction                      | Relationship building / networking                    | 22/10/2019 |
| Hardaker Mike | Taylor Woodrow   | Black Tie Event & Dinner  | Networking  | 19/09/2019 |
| Judge Paul    | Taylor Woodrow   | National Rail Awards Invite                                     | Represent TfL / Networking / Relationship Management  | 19/09/2019 |
| Judge Paul    | Siemens  | Dinner provided by Siemens when visiting Braunschweig Factory   | Part of organised trip to Germany factory             | 17/09/2019 |
| MacLeod Chris | Simona Coretti   | Networking over drinks  | Networking  | 10/09/2019 |
| Mann Claire   | Stagecoach   | London Transport Annual Dinner and Auction                      | Maintaining good relations with operators             | 22/10/2019 |
| Moores Chris  | Grant Thornton   | Conference attendance + evening dinner                          | CPD and networking                                    | 12/09/2019 |
| Moores Chris  | Grant Thornton   | Attendance at London First Infrastructure Conference and Dinner | CPD and networking                                    | 12/09/2019 |
| Mullins Sam   | The Steam Dreams Rail Co Ltd                             | Sunset Steam Express and Dining Experience                      | Investigating transport related experiences in London | 27/08/2019 |
| Preen Heather | Transport Times  | Seat at the National Transport Awards dinner                    | Networking  | 31/10/2019 |
| Shashi Verma  | Boston Consulting Group                                  | CIO Networking Dinner   | Networking  | 16/09/2019 |

**Gifts and Hospitality - TfL Board Members and Senior Officers  
1 August - 31 October 2019**

|                |   |  |   |            |
|----------------|---|--|---|------------|
| Shashi Verma   | KPMG  | Rail industry CIO networking               | Dinner with CIO of Network Rail and other organisations                                     | 18/09/2019 |
| Smith Howard   | Heathrow Airport                                | National Transport Awards                  | Networking  | 31/10/2019 |
| Smith Howard   | MTR Crossrail                                   | London Transport Annual Dinner and Auction | Networking  | 22/10/2019 |
| Turner Lucinda | Arup  | London Transport Annual Dinner and Auction | Networking  | 22/10/2019 |
| Williams Alex  | The Crown Estates                               | Annual Chairman's Reception                | Networking  | 26/09/2019 |
| Williams Alex  | Evening Standard                                | Evening Standard Progress Gala             | Attendance at the Gala which is being held for Unveiling of this year's Progress 1000 list. | 03/10/2019 |
| Williams Alex  | Keith Richardson, Chief Executive of Glandfield | CILT Annual Awards Dinner                  | Recognising achievements in logistics and transport   | 17/10/2019 |
| Yates Matthew  | Jacobs  | Infrastructure summit dinner               | Networking  | 12/09/2019 |

## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Legal Compliance Report (1 April 2019 – 30 September 2019)

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**This report will be considered in public**

### **1 Summary**

1.1 This paper summarises the information provided by each TfL Directorate for the Legal Compliance Report for the period 1 April 2019 to 30 September 2019.

### **2 Recommendation**

2.1 The Committee is asked to note the report.

### **3 Background**

3.1 The Legal Compliance Report is compiled from information supplied through questionnaires completed by each TfL Directorate and follow up discussions concerning known legal compliance issues.

### **4 Scope of the Report**

4.1 The Directorates were asked to identify where they are aware of any alleged breaches of law between 1 April 2019 and 30 September 2019. The questionnaire sought responses concerning the following:

- (a) prosecutions against TfL;
- (b) formal warnings or notices from the Health and Safety Executive, the Office of Rail and Road (ORR), the London Fire Commissioner, the Environment Agency, the Information Commissioner or other Government Agencies;
- (c) investigations by an Ombudsman;
- (d) alleged legal breaches notified by Local Authorities or other bodies;
- (e) judicial reviews;
- (f) involvement in inquests;
- (g) commercial/contract claims in excess of £100,000;
- (h) personal injury claims;
- (i) proceedings in relation to discrimination on the grounds of race, sex, disability, age, religion or belief, sexual orientation, equal pay or breach of contract;
- (j) wrongful or unfair dismissal;

- (k) actions to recover unpaid debt in excess of £5,000;
  - (l) breaches of EU/UK procurement rules and/or the Competition Act;
  - (m) other material breaches of the law;
  - (n) any other material compliance issues; and
  - (o) any initiatives introduced by Directorates to address compliance issues.
- 4.2 The reporting periods for the graphs included in this report follow the six monthly Legal Compliance reporting periods from April to September and October to March. Graphs are included where there is sufficient data from which to consider any trend analysis. The graphs commence in the reporting period covering 1 October 2014 – 31 March 2015. Each period includes any ongoing matters carried over from previous reporting periods where applicable. Any new matters appear in blue font. In accordance with TfL’s commitment to transparency, the legal compliance report is included in this public paper.

## **5 Commentary on Legal Compliance Issues**

### **Prosecutions**

- 5.1 No notifications of prosecution have been received during this period.

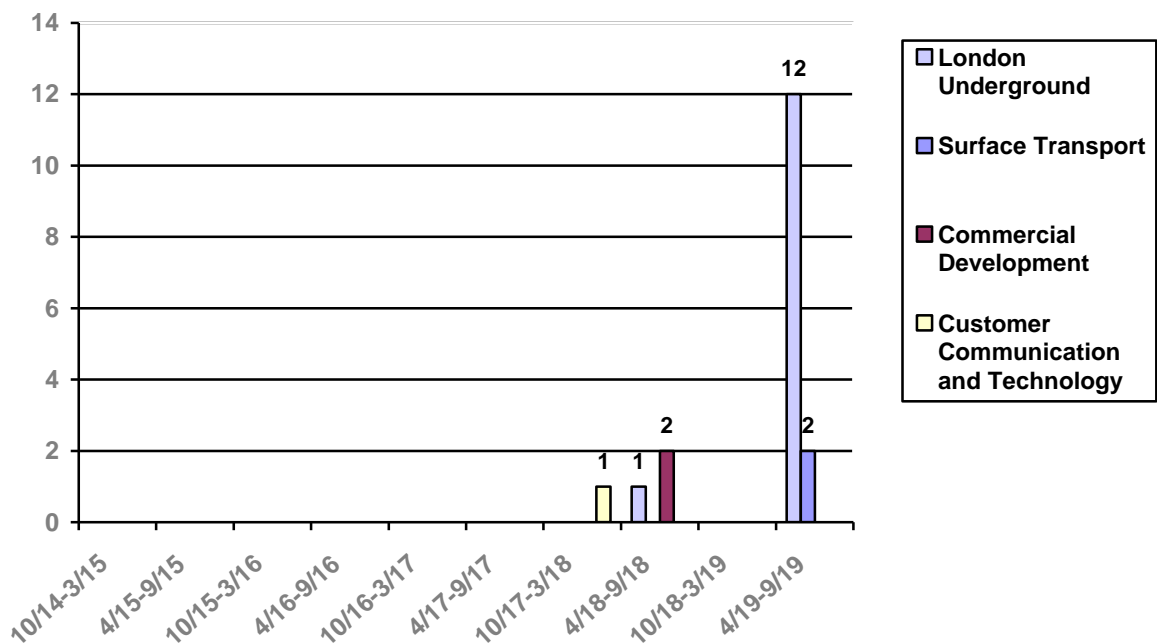
### **Formal Warnings or Notices from the Health and Safety Executive (HSE) or Office of Rail and Road (ORR)**

- 5.2 Surface Transport previously reported an incident on the A40 in November 2011, in which a motorcyclist was injured as a result of temporary bridging plates installed over defective expansion joints on the A40 Westway. The HSE investigation is ongoing and no formal warnings or notices have been issued to date.
- 5.3 Surface Transport reported a new ORR notice issued after a tram derailed on 29 August 2019 caused by an object left on the track by a member of the public. There were no injuries to the public or members of staff. The ORR’s investigation highlighted the risks to the safety of any person from unauthorised access to the segregated sections of the tramway infrastructure. TfL is undertaking an assessment of fencing on the tramway and will complete the necessary works by 31 January 2020.
- 5.4 London Underground reported a notice received from the ORR on 23 September 2019 under the Health and Safety at Work Act 1974 and the Lifting Operations and Lifting Equipment Regulations 1998, following an incident at Stratford Market Depot on 23 August 2019. A member of staff was injured when lifting equipment failed. London Underground has undertaken a review, as required by the notice, of all lifting activities involving fork lift trucks (powered or manual) and a safety improvement plan has been implemented.



## Formal Warnings or Notices from the London Fire Commissioner (LFC)

- 5.5 Surface Transport reported two notices received during the period. The first notice was received on 7 October 2019, regarding a defective sprinkler system, coverage issues relating to the Automatic Fire Detection system, housekeeping and general fire management at Victoria Coach Station following an inspection in August 2019. TfL has commenced work to address the matters and has until March 2020 to comply.
- 5.6 The second notice was received on 4 October 2019, following a fire risk assessment at Tower Pier regarding the public address system, live evacuation at low water and fire risk reviews. A new public address system with additional speakers and a link to the fire alarm have been installed. The fire risk review and live evacuations at low water have been completed. The LFC has confirmed that they are satisfied with the actions undertaken by Surface Transport. Full fire evacuation drills have since been undertaken at Greenwich, Tower, Embankment and Westminster piers and actions have been taken to improve the public address systems and fire alarm messaging.
- 5.7 London Underground reported 12 notices under the Regulatory Reform (Fire Safety) Order 2005 from the LFC following routine inspections at various underground stations during this reporting period. All the faults have been corrected.

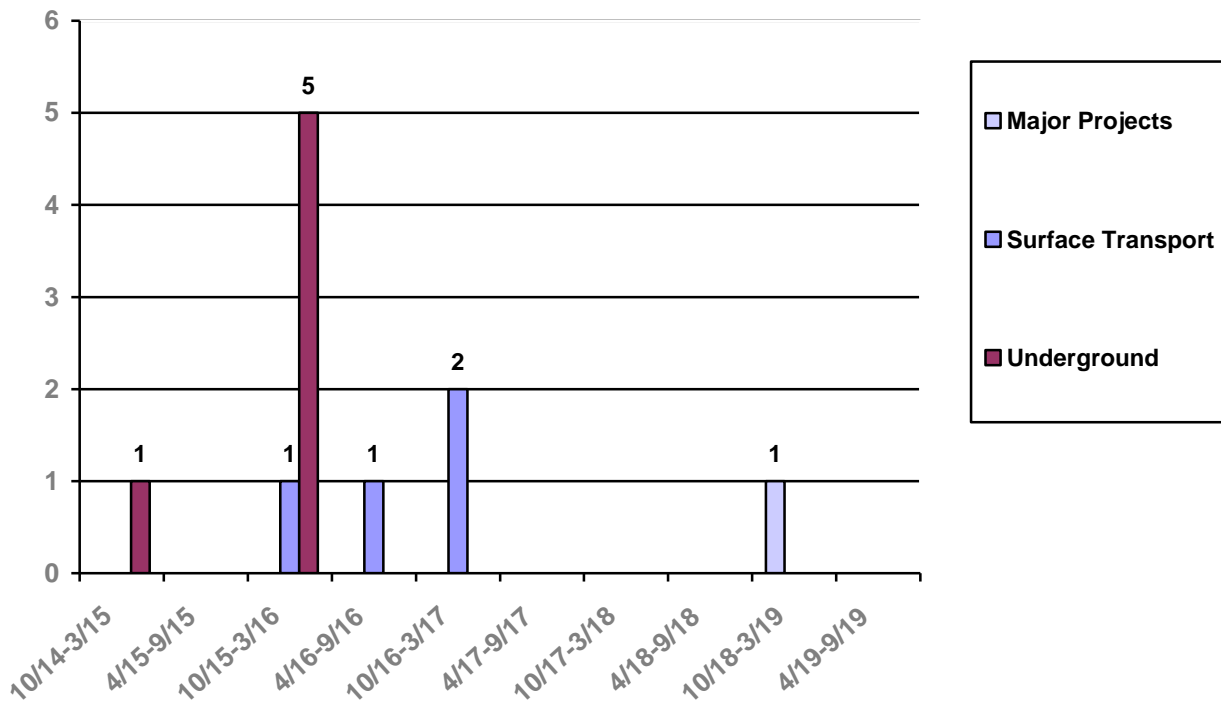


## Formal Warnings or Notices from the Environment Agency

5.8 No formal warnings or notices were reported for the period.

5.9 Since the end of the reporting period, London Underground reported a notice received on 7 October 2019 in relation to equipment containing polychlorinated biphenyls (PCBs) on the train network. The notice requires the phase out and removal of all assets containing PCBs. London Underground has commenced the implementation of a removal plan. The matter is ongoing.

Environment Agency Formal Warnings/Notices



## Formal Warnings or Notices from the Information Commissioner

5.10 The Information Commissioner’s Office (ICO) investigates alleged instances of non-compliance with the General Data Protection Regulation (GDPR), the Data Protection Acts (DPA) 2018 and 1998 and the Privacy and Electronic Communications (EC Directive) Regulations 2003 (the PECR) (together, data protection legislation), the Freedom of Information Act 2000 (the FOIA) and the Environmental Information Regulations 2004 (the EIRs).

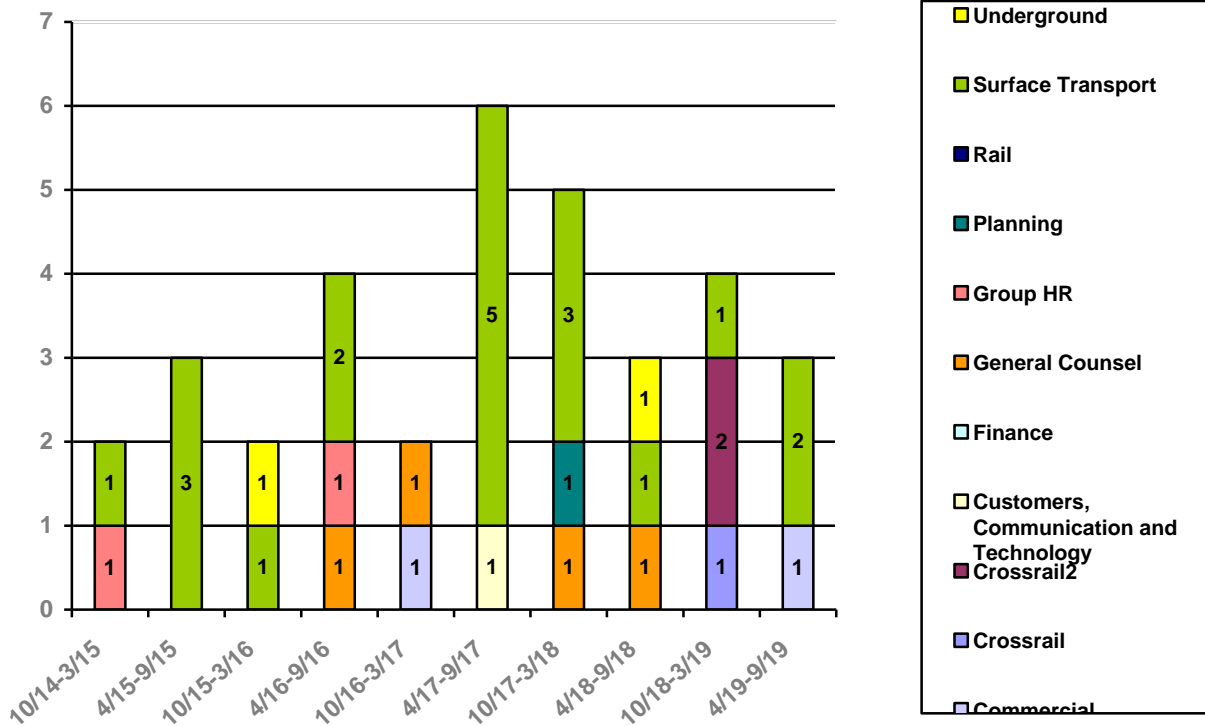
5.11 No formal action was taken by the ICO between 1 April 2019 and 30 September 2019 in connection with TfL’s compliance with data protection legislation.

5.12 A requirement of the GDPR is for all data breaches posing a risk to individuals’ rights and freedoms to be reported to the ICO, within 72 hours, and for affected data subjects to be informed of the breach if it represents a high risk to their rights and

freedoms.

- 5.13 In the period 1 April to 30 September 2019 four data breaches occurred, which TfL reported to the ICO. The ICO were informed of the breaches but did not consider further action was necessary. All affected individuals were informed.
- 5.14 In the period 1 April to 30 September 2019 TfL was notified of 14 new complaints to the ICO concerning alleged breaches of data protection. Most of these related to incomplete or late responses to subject access requests and in three cases the ICO advised that TfL had failed to comply with the GDPR by failing to provide all relevant data within the statutory timescale. In other cases the ICO did not make a finding or found that TfL had complied with the GDPR. There is one outstanding complaint regarding a possible inappropriate disclosure of employee health data.
- 5.15 There were no outstanding responses awaited from the ICO regarding either data breaches or complaints from the previous reporting period.
- 5.16 FOIA and the EIRs give a general right of access to information held by public authorities. Public authorities are generally required to respond to requests for information within 20 working days and provide the requested information unless an exemption applies. Any person who has made a request to a public authority for the disclosure of information under the FOIA or the EIRs can apply to the ICO for a decision on whether a request has been dealt with in accordance with the FOIA or EIRs. Unless the complaint is resolved informally, the ICO records the outcome in a published Decision Notice. Appeals against the ICO's decisions are heard by the First-Tier Tribunal (Information Rights).
- 5.17 In this reporting period, 1548 requests were made to TfL under the FOI Act and EIRs and 1309 out of the 1317 which had reached their deadline by 30 September (99.4 per cent) were replied to on time.
- 5.18 During the reporting period, the ICO issued three Decision Notices recording the outcome of complaints made about TfL's compliance with the FOI Act or the EIRs. The ICO found that information had been properly withheld to protect commercial interests for two of the complaints and on security grounds for the third complaint.
- 5.19 Two complaints made during this reporting period are still open. One concerns the use of the FOI cost limit and one concerns the future publication of the cost benefit analysis in relation to the 'Safe Speeds for Central London' proposals.
- 5.20 Four complaints were resolved informally by the ICO in this reporting period. This included the two complaints open at the end of the last reporting period.
- 5.21 During the reporting period two Information Rights Tribunal hearings were held. One was an appeal by TfL against a Decision Notice issued by the ICO in the previous reporting period, concerning information on the location of suicide incidents on the London Underground. The other was an appeal by the requester against a Decision Notice issued by the ICO in the previous reporting period concerning Safeguarding maps for Crossrail 2. Both Tribunals found in TfL's favour and agreed the information requested had been properly withheld.

Information Commissioner Formal Warnings/Notices



**Formal Warnings or Notices from any other Government Department or Agency Indicating a Breach of Law**

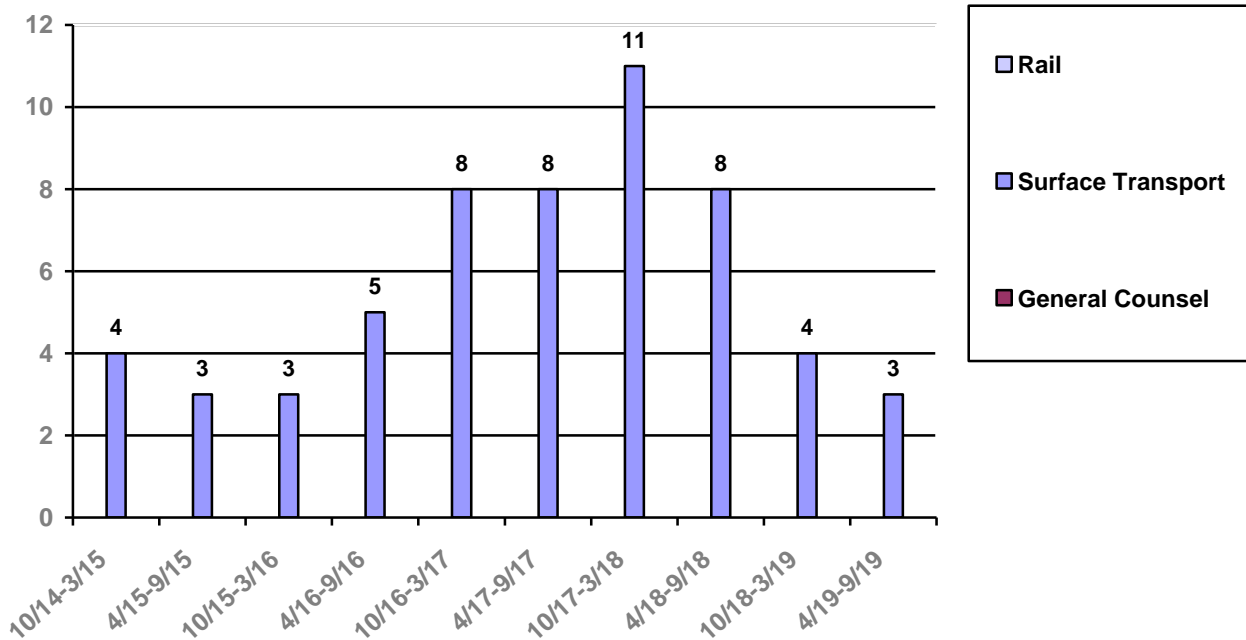
5.22 No warnings or notices were reported for this period.

**Investigation by an Ombudsman**

5.23 General Counsel (which now includes the Licensing, Regulatory and Charging function) reported one outstanding investigation and two new investigations. The outstanding investigation relates to the handling of an application for a private hire vehicle operators’ licence. The two new investigations relate to a complaint about TfL’s handling of a T-Charge enquiry and the handling of a penalty notice and conduct of TfL’s contracted bailiffs.

5.24 In the outstanding investigation, the LGO found that there was no fault in the handling of the operator’s licence application. In the first new investigation, in agreement with the LGO, the complainant was offered £30 as a goodwill payment. In the second new investigation, it was found that the contracted bailiffs had acted outside of their powers. TfL is challenging the outcome and the matter is ongoing.

## Investigations by Ombudsman



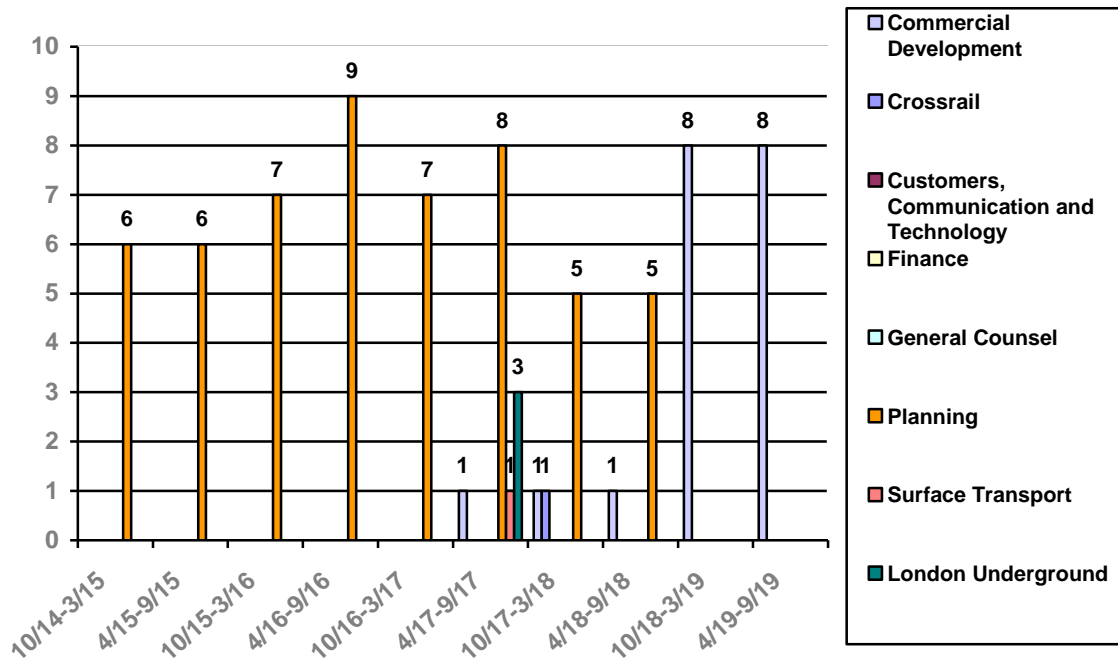
## Notices Received Regarding any Alleged Breach of Law by a Local Authority or Other External Agency

- 5.25 Commercial Development reported seven outstanding notices carried over from the last report and one new notice received during the reporting period.
- 5.26 The first outstanding notice (received on 25 February 2014) was an enforcement notice from the London Borough of Haringey relating to an unauthorised front extension to units on 231-243 High Road and 249a High Road Tottenham. The tenant failed to remove the extension by 31 July 2014 as required by the Notice. TfL wrote to the tenant to remind them of their lease obligations and the risk of prosecution by the London Borough of Haringey. The tenant lodged an appeal with the Planning Inspectorate. The enforcement notice remains stayed while a property management company prepares proposals for the frontages of the properties and all the adjacent properties. In January 2019, the Government approved a London Borough of Haringey Compulsory Purchase Order of TfL owned land on site to enable a wider borough led regeneration scheme. The tenant is in direct communication with the borough to resolve the matter and TfL continues to monitor the situation.
- 5.27 The second outstanding enforcement notice (received on 24 January 2018) from the London Borough of Hackney relates to a breach of planning control at a site at Holywell Lane in Shoreditch (under the East London Line). The site is being used as

a car park although it was granted temporary planning permission for use as office/ retail/ mixed use. The tenant submitted a planning application to the London Borough of Hackney to regularise the use of the site. The application was refused and the tenant appealed. London Borough of Hackney's decision as to whether to take planning enforcement action is pending the outcome of the appeal. TfL continues to monitor the situation.

- 5.28 The third outstanding enforcement notice (received on 11 April 2018) was from Westminster City Council regarding a contravention of the control of advertising by a TV screen positioned behind a shopfront of a retail store in the West One Shopping Centre. TfL has written to the tenant to inform them of the notice. The tenant has confirmed that they have existing planning consent for the shop front and challenged the notice without success. Westminster City Council is planning to issue a further notice. TfL continues to monitor the matter.
- 5.29 The fourth outstanding enforcement notice (received on 30 January 2019) from London Borough of Tower Hamlets relates to waste and a pest infestation at 25 Cable Street E1. The notice required accumulated waste and undergrowth to be disposed of within 21 days. The tenant believed to be responsible for the land has been informed but they have disputed responsibility. Following title searches on the land, it was confirmed that the land belonged to the tenant and London Borough of Tower Hamlets and not TfL. TfL has contacted the London Borough of Tower Hamlets to clarify that TfL has no responsibility in this matter.
- 5.30 The fifth outstanding enforcement notice (received on 5 March 2019) was from London Borough of Tower Hamlets regarding the lack of security of premises with loose windows, potential for rubbish dumping, squatting and pest infestation at 1a, 1b and 1c Burdett Road, E3, Mile End Station. TfL has informed the tenant of the notice to secure the premises. TfL continues to monitor the matter.
- 5.31 The sixth outstanding enforcement notice (received on 20 March 2019) was from Westminster City Council regarding breach of planning permission for use of a residential flat as offices. TfL has written to the tenant to inform them of the breach. The tenant has been evicted and the matter is now closed.
- 5.32 The seventh outstanding enforcement notice (received on 3 April 2019) was from London Borough of Haringey regarding an unauthorised rear extension to the premises at land to the rear of Seven Sisters and Seven Sisters Market Hall, N15. The notice requires that the timber structure is demolished, and debris removed. The tenant is in direct communication with the borough. The structure has not yet been removed. The matter is ongoing.
- 5.33 The new enforcement notice (received on 17 June 2019) was from the London Borough of Newham regarding pest infestation at 3-4 Burford Road Stratford High Street. Remedial works were undertaken to remove the waste completely and implement pest control measures. The Borough of Newham were satisfied with the actions taken and discharged the enforcement notice on 30 September 2019. The matter is now closed.

## Alleged Breaches of Law by a Local Authority/Other External Agency



### Decisions Subject to a Judicial Review

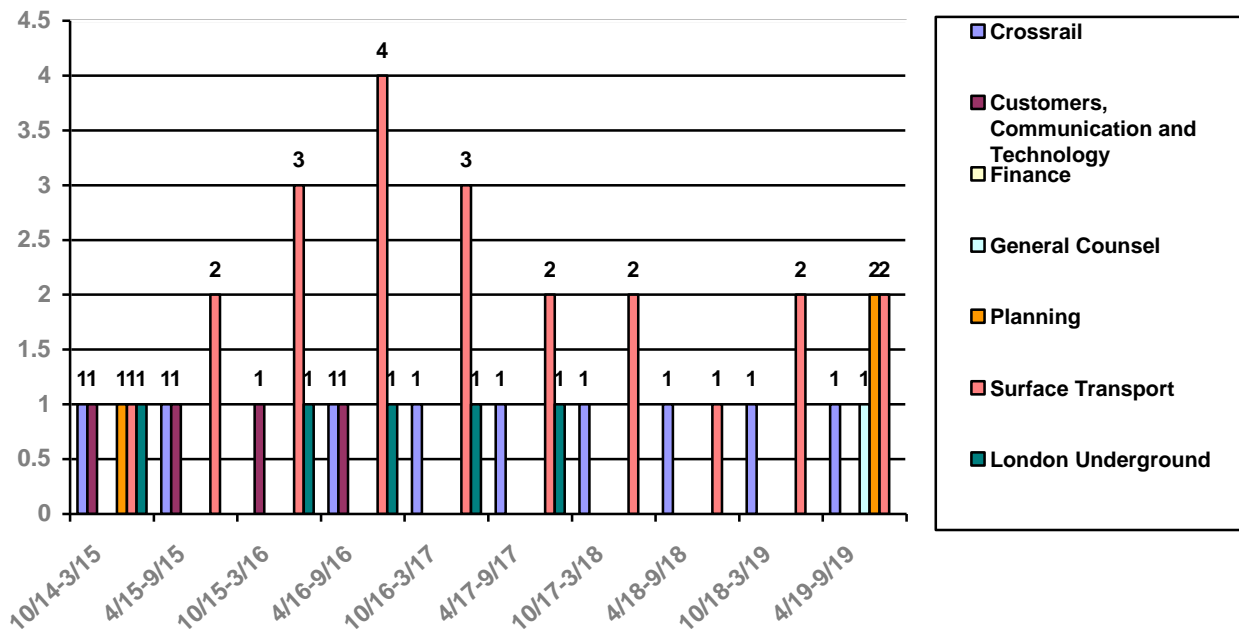
- 5.34 Crossrail previously reported a judicial review application on 23 August 2017 in relation to its decision to dispose of a site at Woolwich on the open market rather than negotiate a sale of the land exclusively with one interested party. A hearing took place on 21 March 2018 in the High Court and the claim was dismissed. The Claimant made an application for leave to appeal which was dismissed on 27 June 2019. The Claimant has subsequently applied to the Supreme Court for leave to appeal the decision and a decision is awaited.
- 5.35 Surface Transport previously reported that the Independent Workers Union of Great Britain (IWGB) issued a judicial review claim seeking to challenge the Mayor's decision to remove the exemption for PHVs from the congestion charge. TfL was an interested party. On 4 April 2019, the High Court refused IWGB's application for interim relief and PHVs became chargeable vehicles for the purposes of the Congestion Charging Scheme on 8 April 2019 as planned. Permission was refused in respect of the alleged breach of the public sector equality duty. Permission was granted in respect of alleged indirect discrimination and breach of the Human Rights Act. The hearing took place on 10 and 11 July 2019. The Court dismissed the claim and refused the Claimants permission to appeal. On 6 September 2019 the Claimants filed an application with the Court of Appeal seeking permission to appeal the decision. Since the end of the reporting period, permission to appeal has been

granted and a hearing date is awaited.

- 5.36 City Planning reported a judicial review claim following the Secretary of State for Transport's designation of the Airports National Policy Statement ('ANPS') on 26 June 2018 in which a third runway at Heathrow was identified as the preferred scheme for achieving increased airport capacity in south-east England. The Mayor considers that the ANPS fails to adequately address the significant health impacts of the proposed scheme in terms of air quality and noise, the adverse impact on surface transport infrastructure which will result from the huge increase in staff, passenger and freight movements, and the implications for the UK's obligations in respect of climate change. The Mayor also does not consider that the environmental impacts of the scheme have properly been assessed. The Mayor joined with the London Boroughs of Hammersmith and Fulham, Hillingdon, Richmond and Wandsworth, the Royal Borough of Windsor and Maidenhead and Greenpeace in bringing a legal challenge against the designation of the ANPS by way of judicial review. TfL was an interested party in the proceedings and provided evidence in support of the claim. The claim was heard between 11 - 22 March 2019, together with four other claims. On 1 May 2019 the Divisional Court refused the application for judicial review on all grounds. The four other claims were also unsuccessful. Application for permission to appeal was granted by the Court of Appeal in respect of two grounds on which permission to judicially review the decision had been granted. Permission was also granted in respect of three other claims. The appeal was heard on 17 October 2019 for a period of six days and a decision is awaited.
- 5.37 Surface Transport reported a judicial review claim issued on 6 July 2019 by a disabled person who sought to challenge TfL's refusal to cancel a Penalty Charge Notice (PCN) issued to the driver of a vehicle in which he was a passenger in respect of the ULEZ charge. The Claimant argued that the requirement to pay was discriminatory as he was disabled. Permission was refused on 26 September 2019 and the Court held that the requirement for a blue badge holder to pay the ULEZ charges was lawful and did not amount to unfavourable treatment. The Claimant has made an application for an oral hearing on permission which will take place on 26 November 2019.



## Judicial Reviews of decisions by TfL<sup>1</sup>



## Inquests

5.38 London Underground has been involved in 34 inquests, 21 of which have been carried forward from the previous report. 13 new London Underground inquests are included in this report for the first time.

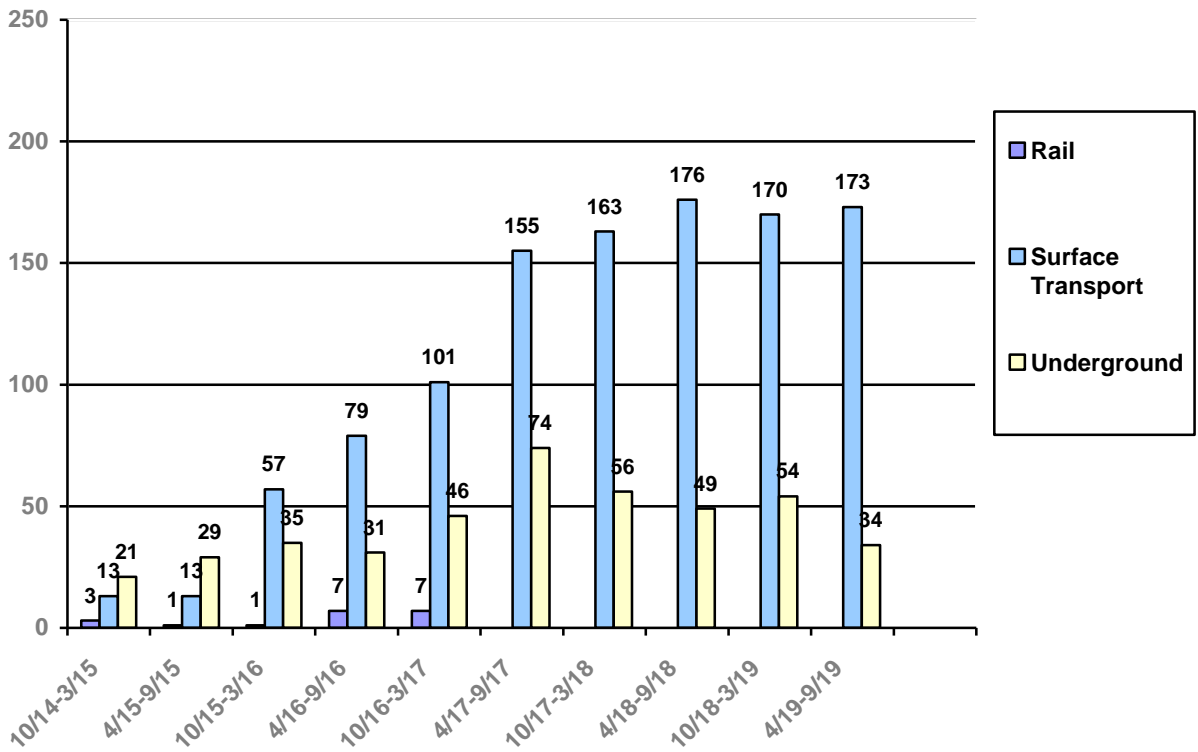
5.39 Of the 21 inquests carried forward from the previous report, five were suicides, there were two accidental deaths, two narrative verdicts, one open verdict, one was drug related and 10 are awaited. Of the 13 new inquests reported, one was a suicide and 12 are awaited.

5.40 Surface Transport has been involved in 173 inquests, 150 of which have been carried forward from the previous report. 23 new Surface Transport inquests are included in this report for the first time.

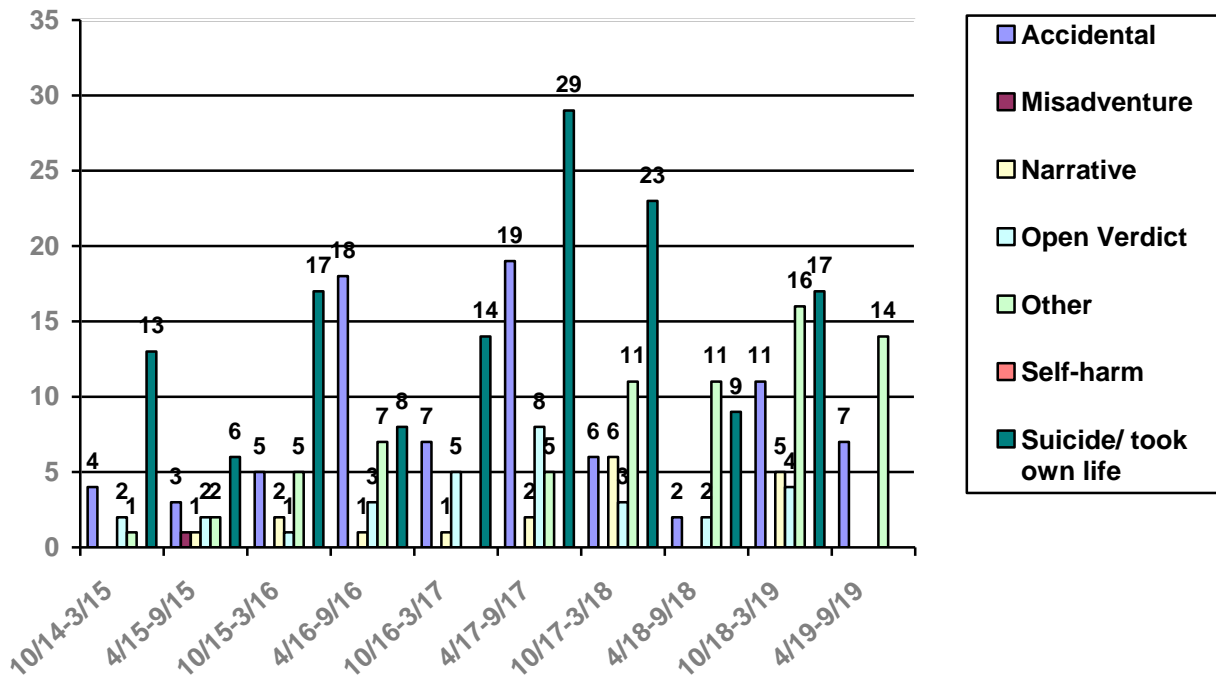
5.41 Of the 150 outstanding inquests, 70 were adjourned pending the outcome of criminal proceedings or police investigations, 55 are awaited, four await the Coroner's decision on whether to resume the inquests, in eight cases no inquest was held due to the outcome of criminal proceedings or no further information being available, one was an accidental death, six were road traffic accidents or collisions and six were unlawful killings. Of the 23 new inquests reported, six were adjourned pending the outcome of police investigations and 17 are awaited.

<sup>1</sup> Judicial Reviews in which TfL is a claimant or an interested party are not included in the table.

### Inquests



### Inquest Findings



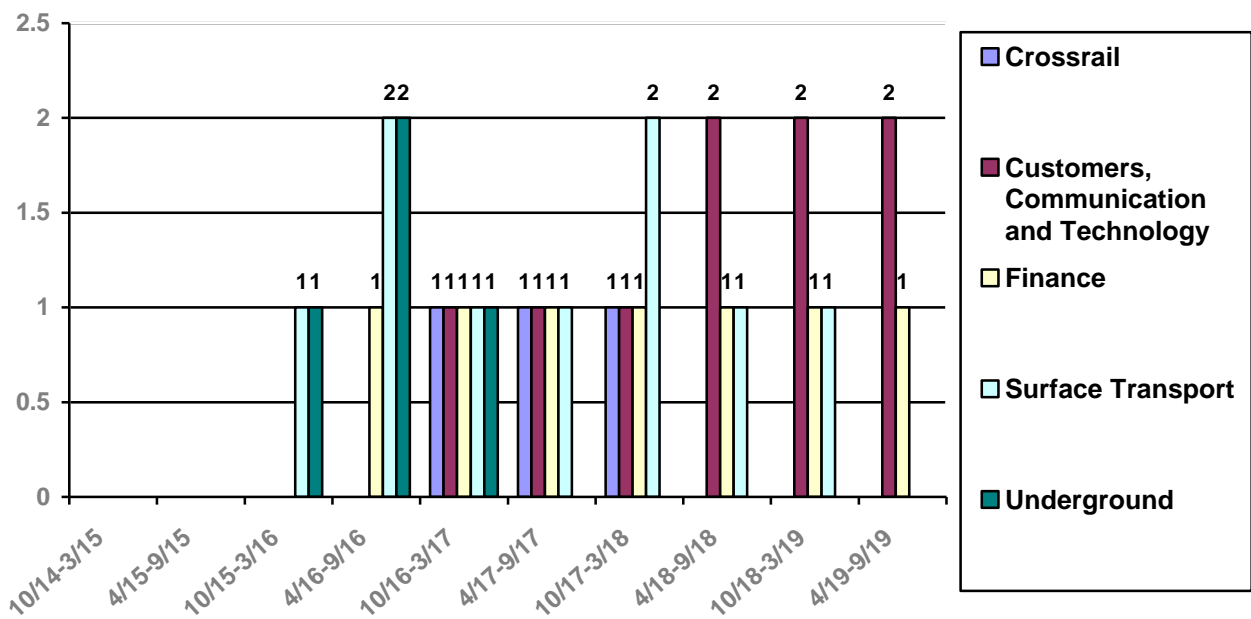
**Commercial / Contract Claims Brought by or Against TfL in Excess of £100,000  
(Not Including Personal Injury Claims)**

5.42 Finance previously reported that on 9 September 2016 the TfL Trustee Company Limited, TfL’s pension trustee subsidiary, issued proceedings against HMRC for overpaid VAT on fund management services. A stay of the proceedings has been agreed, pending the outcome of two test cases . One of the test cases is being appealed and TfL will review its position once that has been determined.

5.43 Customers, Communication and Technology previously reported that TfL issued proceedings against Visa and MasterCard in August 2016 in the High Court and separate but related proceedings against MasterCard in September 2016 in the Competition Appeal Tribunal in relation to Multi-lateral interchanges fees (MIFs). TfL is charged MIFs by Visa and MasterCard on all credit card transactions. The claims are on the same basis as many other claims which have been brought by other organisations in the US and the UK on the basis that the MIF arrangements unlawfully restrict competition and are anti-competitive. The proceedings were stayed pending the outcome of a number of test cases currently being considered by the courts. The claim against MasterCard was resolved in December 2018 and the claim against Visa was settled in June 2019. The matter is now closed.

5.44 In the last report, Customers, Communication and Technology reported a claim by Train Operating Companies (TOCs) for loss of revenue due as a result of fares changes in 2015. The claim is disputed. The TOCs commenced arbitration proceedings in March 2018. The dispute was resolved following a mediation in September 2019.

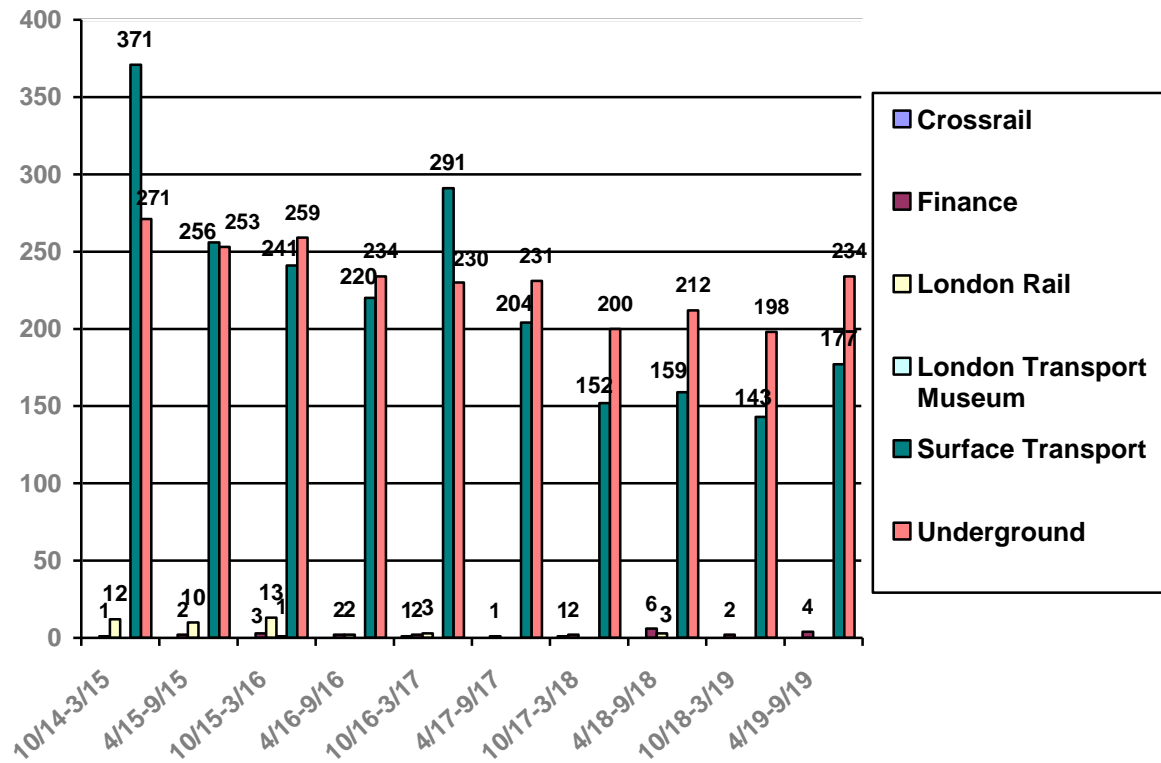
Commercial/ Contract Claims



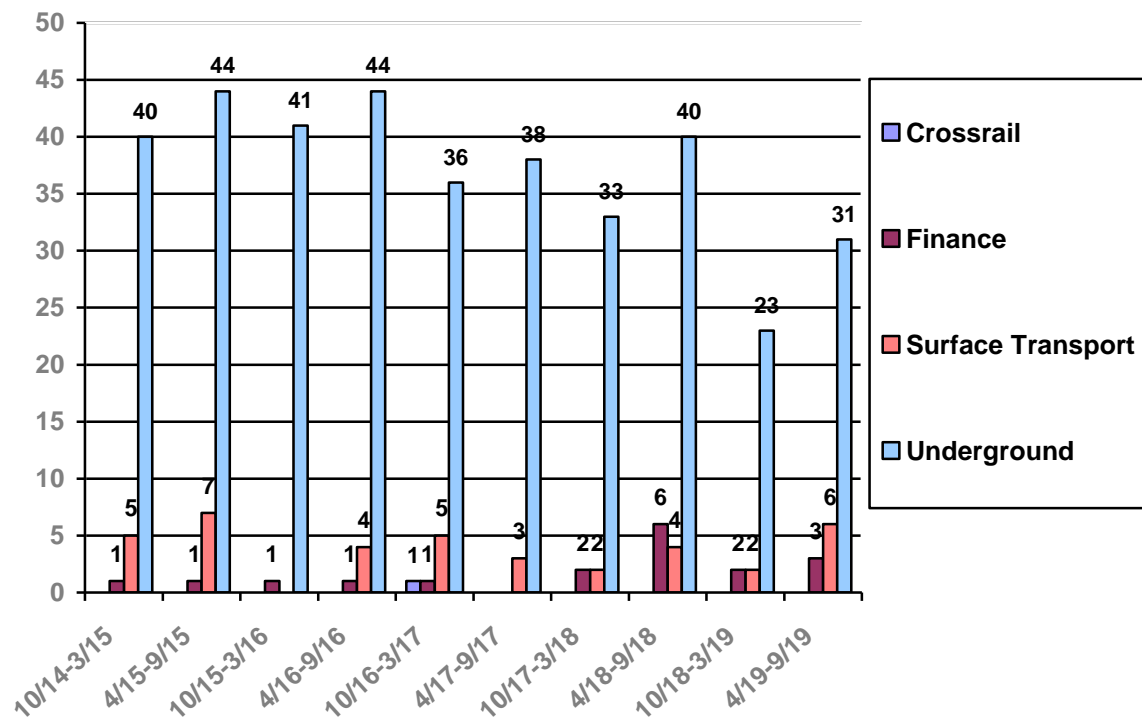
## **Personal Injury Claims**

- 5.45 London Underground has been the subject of 234 claims for personal injury that were closed during the reporting period, of which 31 claims were employers' liability claims by staff and 203 claims were for public liability by customers/members of the public.
- 5.46 Of the 203 claims for public liability, 161 were closed without payment and 42 were settled.
- 5.47 Of the 31 claims for employers' liability, eight were closed without payment and 23 were settled.
- 5.48 Surface Transport (including London Rail) has been the subject of 177 claims for personal injury that were closed during the reporting period, of which six claims were for employers' liability and 171 claims were for public liability.
- 5.49 Of the 171 claims for public liability, 139 were closed without payment and 32 were settled.
- 5.50 Of the six claims for employers' liability, one was closed without payment and five were settled.
- 5.51 Finance has been subject to four claims for personal injury that were closed during the reporting period of which three claims were for employers' liability and one for public liability.
- 5.52 Of the three claims for employer's liability one was closed without payment and two were settled.
- 5.53 The one public liability claim was closed without payment.
- 5.54 Out of the total of 415 personal injury claims closed during this period, 311 were closed without payment and 104 were settled. There was an increase of 38 personal injury claims closed for this reporting period compared with the 377 claims closed and reported in the last reporting period (1 October 2018 – 31 March 2019).

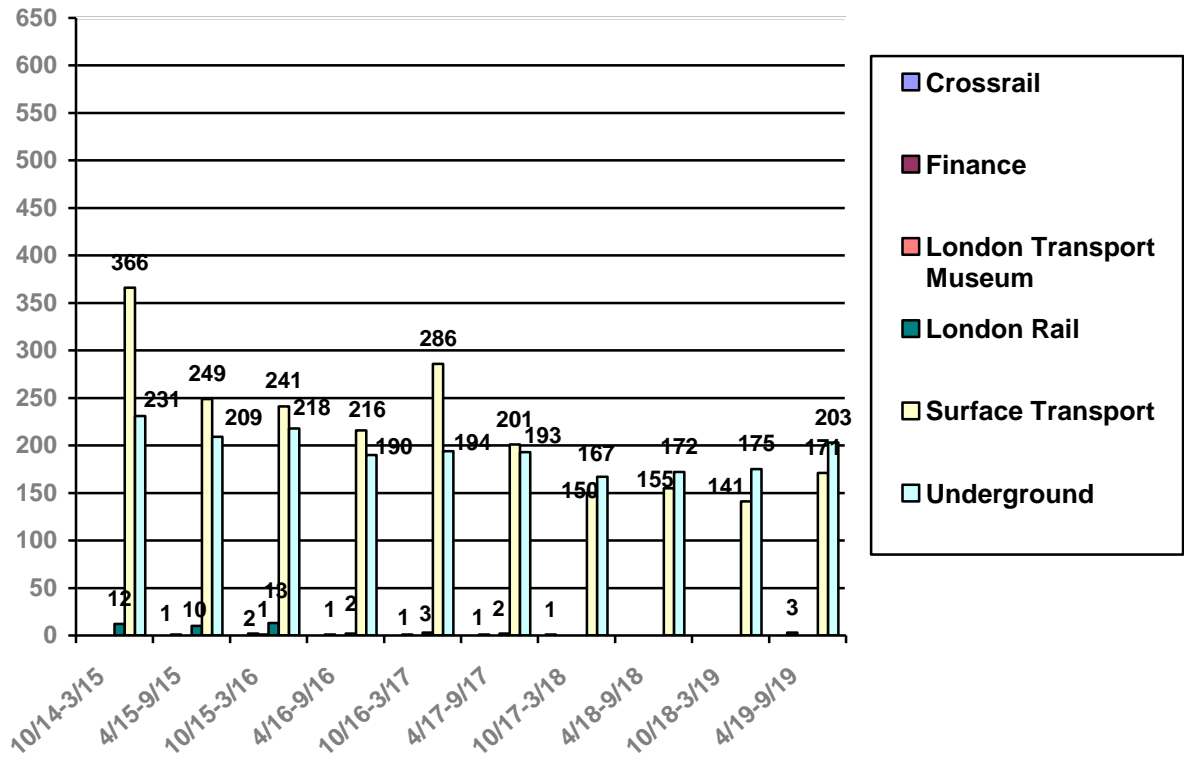
Personal Injury Claims Concluded in the Reporting Period



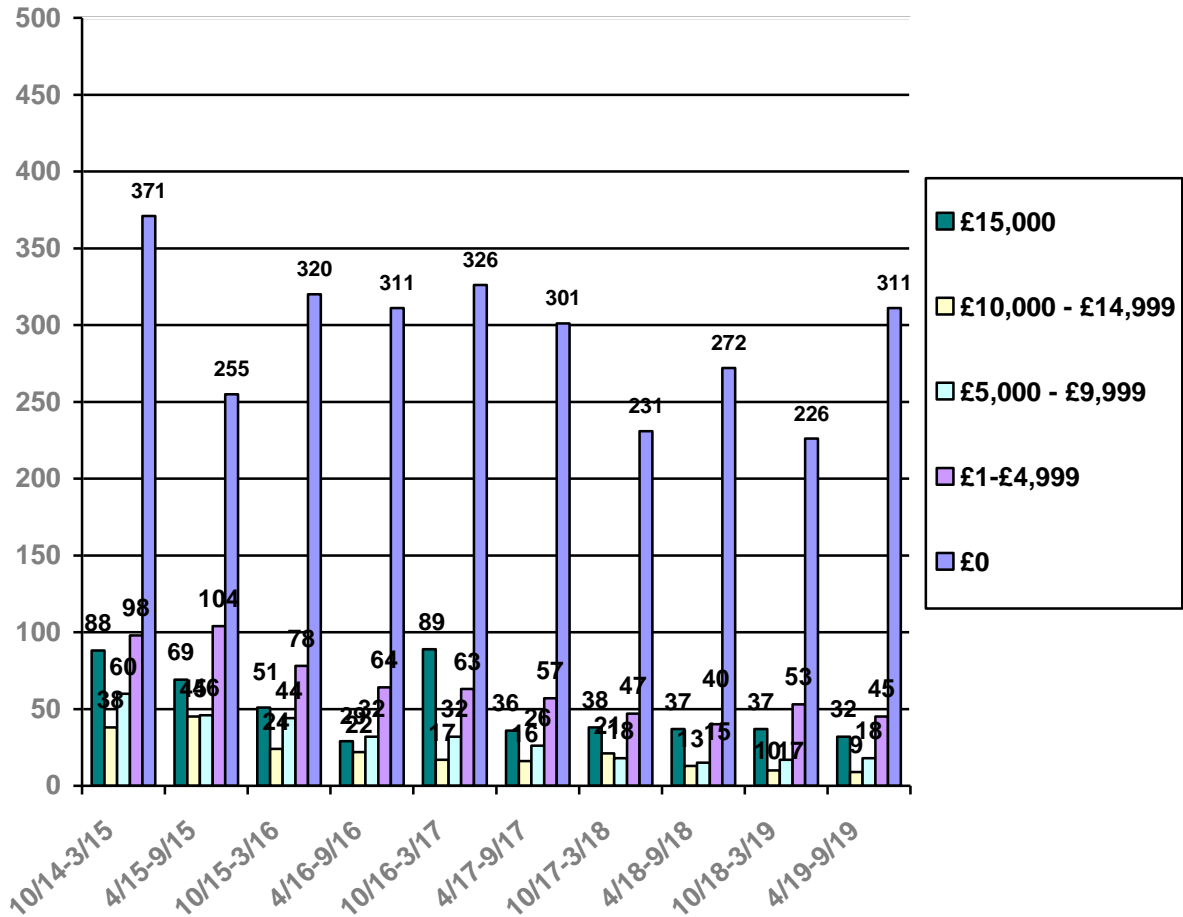
Personal Injury Claims – Concluded Employers’ Liability (Staff)



Personal Injury Claims – Concluded Public Liability  
(Customers)



## Personal Injury Claims – Concluded Cases



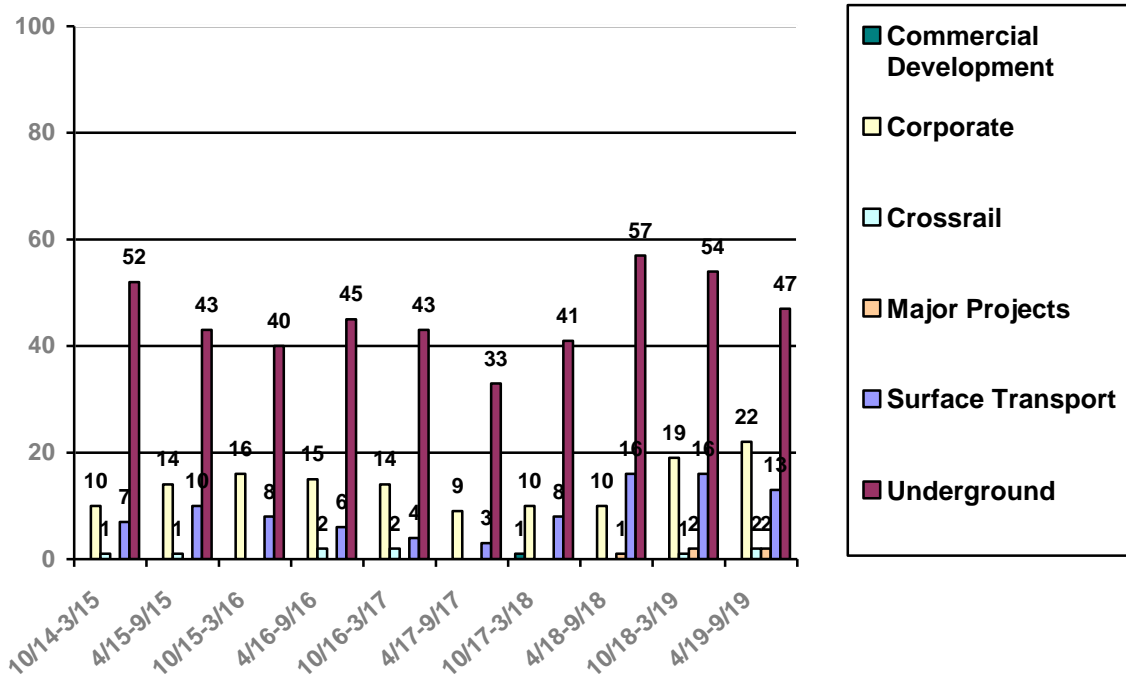
## Employment Tribunal (ET) Proceedings

- 5.55 TfL continues to take a proactive and robust approach to managing ET cases, coupled with an extensive training programme for managers on the latest developments in the law and best practice so as to avoid employment disputes as far as possible.
- 5.56 London Underground has been the subject of 47 ET claims during the period of this report. 33 were carried forward from the previous period and 14 were reported for the first time this period. Of the 47, 11 were for unfair dismissal, four were for sex discrimination, one for whistleblowing, one for trade union detriment, 13 were for disability discrimination, nine were for race discrimination, two were for unlawful deductions from wages, one was for a breach of Agency Worker Regulations, one was for flexible working, one was for age discrimination, two were for equal pay and one was for not being allowed time off to carry out Health and Safety duties.
- 5.57 Surface Transport has been the subject of 13 ET claims during the period. Ten were carried forward from the previous period and three were reported for the first time this period. Of the 13, five were for unfair dismissal, three were for unlawful deductions from wages, one for holiday pay, three were for race discrimination and one for disability discrimination.

- 5.58 Professional Services have been the subject of 22 ET claims during the period. 15 were carried forward from the last period and seven were reported for the first time during this period. Of the 22, five were for disability discrimination, five for unlawful deduction from wages, seven were for unfair dismissal, one for breach of contract, one was for discrimination on the grounds of sexual orientation, one for equal pay and two were for sex discrimination.
- 5.59 Major Projects has been subject to two ET claims during the period. One was carried forward from the last period and one was reported for the first time during this period. Of the two, one was for sex discrimination and one for unfair dismissal.
- 5.60 Crossrail has been the subject of two ET claims. One was carried forward from the last period and the one reported for the first time during this period. Of the two claims, one was for unfair dismissal and the other for unfair dismissal.
- 5.61 Of the total of 86 ET claims brought during the period, 55 cases are ongoing and 30 were concluded during the period. One other claim was concluded during a different reporting period however it remains on the report as it is subject to appeal. Of the 30 ET cases concluded during this period, four were won, two were partially won, seven were withdrawn, four were struck out, one was lost and 12 were settled.
- 5.62 Of the total 86 ET claims, 60 were carried forward from the last period and 26 were reported for the first time during this period.

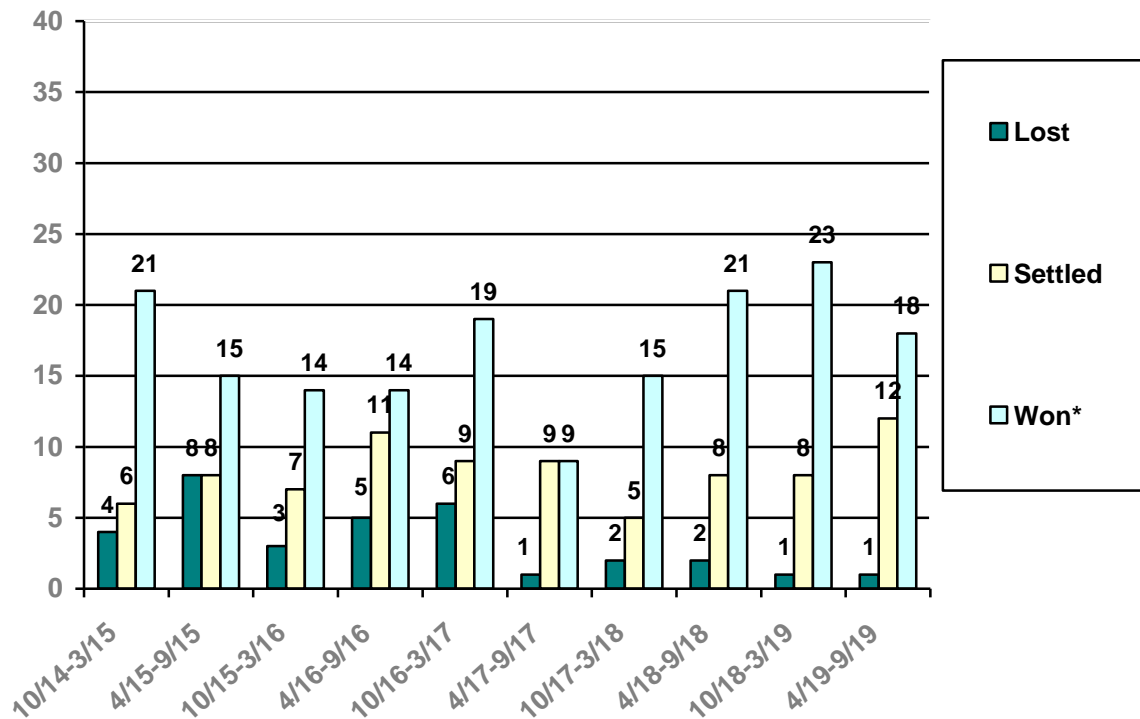


Total number of Claims<sup>2</sup>



Employment Tribunal Cases Concluded

\*Claims won include withdrawn and struck out claims

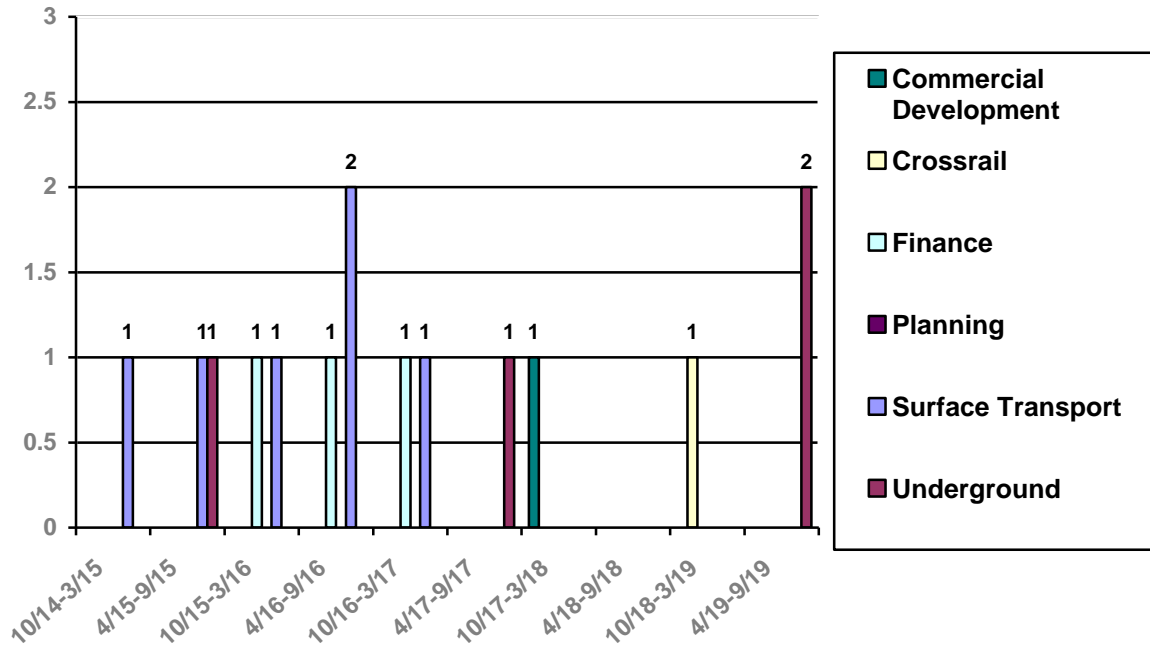


<sup>2</sup> A number of the reported claims have more than one head of claim (for example a claimant may claim unfair dismissal and race discrimination or sex discrimination and race discrimination). Where this is the case, the claim is reported once. Where claims involve unfair dismissal, these are reported as the main claim. In cases where there is no obvious main claim (such as multiple types of discrimination) one head of claim is selected.

### Civil Debt in Excess of £5,000

5.63 London Underground reported two claims for unpaid debts. The first claim was in relation to non-payment of rent and the second claim was for non-payment for de-icing fluids. Both claims have been settled and new internal processes implemented to prevent a reoccurrence.

#### Unpaid Debt

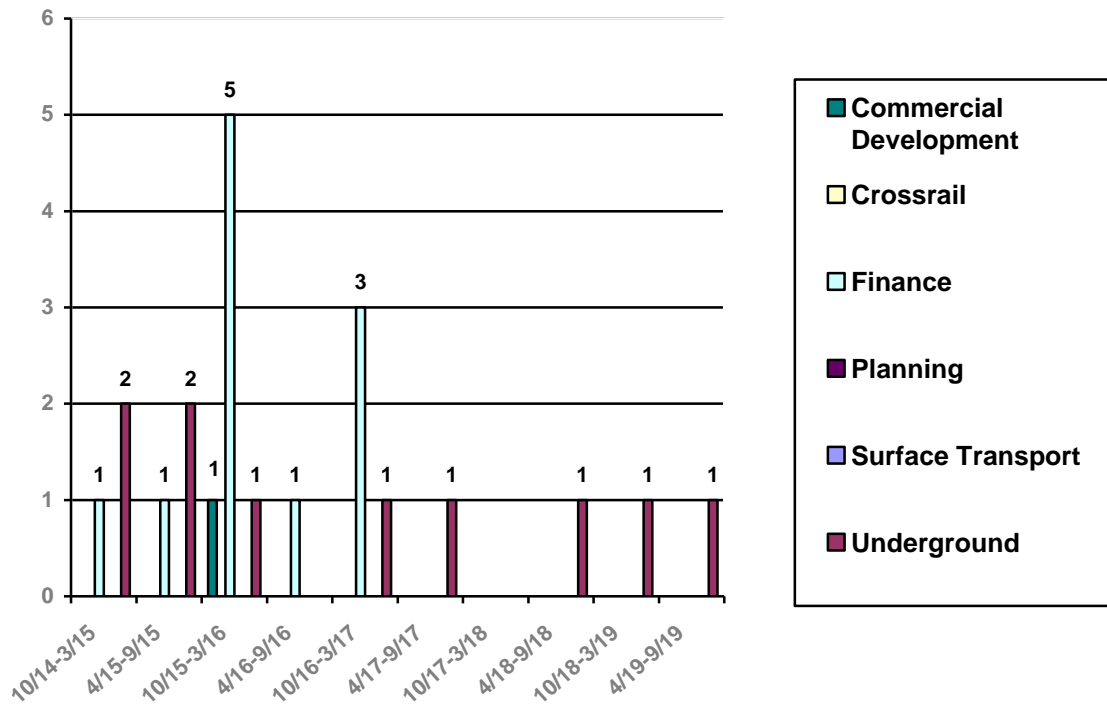


### Breaches or Alleged Breaches of EU/UK Procurement Rules and/or the Competition Act 1998

5.64 In the last reporting period, London Underground reported receiving three High Court claims, in July 2018, from the unsuccessful bidders in the procurement process for new rolling stock on the deep tube lines (Piccadilly, Bakerloo, Central and Waterloo & City). The issue of the High Court proceedings automatically suspended the procurement process, preventing London Underground from entering into a contract with the successful bidder. On 2 November 2018 the High Court lifted the automatic suspension allowing London Underground to enter into contracts with the successful bidder. The claims continued as claims for damages based on alleged errors in the procurement process. Since the end of the reporting period, all of the claims have been settled and the matter is now closed.

5.65 Major Projects reported that in August 2019, the reserve bidder on the Silvertown Tunnel project commenced High Court proceedings alleging errors in the scoring of the tender submissions and seeking a declaration that the contract should be awarded to it rather than the preferred bidder. The commencement of Court proceedings automatically suspended TfL's right to enter into a contract with the successful bidder. In October 2019, the Claimant consented to TfL's application to Court to have the automatic suspension lifted. The claim continues as a damages claim. TfL is robustly defending the claim and since the end of the reporting period the contract with the successful bidder has been completed.

Breaches or Alleged Breaches of EU/UK Procurement Rules and/or the Competition Act 1998



**Other Known Breaches**

5.67 No other known breaches were reported.

**Other Material Compliance Issues**

5.68 Commercial Development previously reported a dispute in relation to highways land that was vested in various London boroughs which TfL maintain and was transferred to TfL on 3 July 2000 pursuant to the GLA Roads and Side Roads (Transfer of Property) Order 2000. Of the 32 London boroughs, agreement has been reached for land transfers with 29 boroughs. A hearing in the Court of Appeal was held on 1 and 2 March 2017 in relation to the remaining two boroughs. On 4 August 2017 the Court of Appeal allowed the appeal. TfL was granted permission to appeal to the Supreme Court and a hearing took place on 24 and 25 October 2018. On 5 December 2018 the Supreme Court found in TfL’s favour. TfL is progressing discussions with the boroughs concerning the specific land that is to transfer following this ruling.

5.69 Surface Transport previously reported receiving a claim for compensation under the Land Compensation Act resulting from the Archway Gyratory scheme. The matter is still ongoing.

## Management of Compliance Issues

- 5.70 TfL's legal and compliance risks are managed as part of TfL's overarching strategic risk management framework. A range of operational and assurance processes are in place to mitigate these risks at all levels in the organisation.
- 5.71 These safeguards are supported by the provision of advice on and training in relevant legal and corporate governance issues, which are tailored to the needs of TfL's business units.
- 5.72 The legal and compliance framework is the subject of continuous review and improvement. Initiatives to address compliance in Information Governance and across TfL have included:
- (a) ongoing work to update contractual and commercial templates and forms to ensure they align with legal requirements;
  - (b) promoting TfL's compliance with information governance legislation (including the FOIA, the DPA, and the EIRs) and associated statutory Codes of Practice to the business;
  - (c) training on Freedom of Information, Data Protection, GDPR and records management;
  - (d) the promotion through the TfL management System of Information Governance policies, instructions and guidance;
  - (e) the promotion and maintenance of a programme of pro-active publication of information, to improve transparency and simplify the handling of FOI requests;
  - (f) ongoing bespoke training to the business and HR on a range of employment issues including employment law updates, reasonable adjustments requirements and effective case management and providing guidance and best practice learned from Employment Tribunal cases;
  - (g) training on a range of legal issues including land referencing, competitive procurement, employment law, popular NEC topics, legal privilege in contract law, mayoral planning powers/ process, Transport and Works Acts and Development Consent Orders, common contract pitfalls, Overriding land rights and section 203 Housing and Planning Act 2016;
  - (h) implementation of HSE masterclasses and safety training in Property Development;
  - (i) continued support with the use of TfL's e-tendering system to assist users to comply with the procurement regulations, and to observe the principles of transparency, equal and fair treatment of suppliers;
  - (j) continued production of instructions, guidance and templates in the TfL Commercial Toolkit to support compliance with regulations and governance;

- (k) continued collaboration with TfL Internal Audit to identify and address areas of weakness in TfL's processes, helping to implement corrective actions where appropriate;
- (l) ongoing implementation of new Direct Vision Standard and Work Related Road Risk requirements to help improve safety on London roads, including more robust reporting and implementation checks to ensure compliance with legal safety requirements and mitigate road risk;
- (m) introduction of a procurement pocket guide in Crossrail Limited as part of procurement compliance;
- (n) implementation of processes to address fire compliance at all buildings on the Underground;
- (o) implementation of lifting operations compliance to address issues relating to Lifting Operations and Lifting Equipment Regulations across TfL;
- (p) implementation of processes to address compliance with Electricity at Work Regulations across the Underground;
- (q) update to internal decision-making and governance processes, including terms of reference of internal advisory forums and meetings and templates and records; and
- (r) the ongoing issue of the Commercial Law Bulletin to the commercial teams to support the dissemination of important messages relating to regulatory and legal issues.

## **6 Conclusions**

6.1 The Legal Compliance Report for the period 1 April 2019 to 30 September 2019 sets out the legal and compliance matters of which TfL senior management is aware. There are no material breaches of the law which would affect TfL's continued operations.

6.2 Reported matters continue to be broadly in line with previous reports.

### **List of Appendices to this report:**

None

### **List of Background Papers:**

None

Contact Officer: Howard Carter, General Counsel  
 Number: 020 3054 7832  
 Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)

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## Audit and Assurance Committee



**Date:** 3 December 2019

**Item:** Members Suggestions for Future Discussion Items

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**This paper will be considered in public.**

### **1 Summary**

- 1.1 This paper presents the current forward programme for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the forward programme and is invited to raise any suggestions for future discussion items.**

### **3 Forward Plan Development**

- 3.1 The Board and its Committees and Panels have forward plans. The content of the plans arises from a number of sources:
- (a) standing items for each meeting: minutes; matters arising and actions list; and any regular quarterly reports. For this Committee these include quarterly risk and assurance reports; Crossrail updates; and IIPAG quarterly updates;
  - (b) regular items (annual, half-year or quarterly) which are for review and approval or noting: examples include the legal compliance report, integrated assurance plan, and TfL annual report and accounts;
  - (c) matters reserved for annual approval or review: examples include those already mentioned above as well as annual audit fee; and
  - (d) items requested by Members: the Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item.
- 3.2 The Committee is required to meet in private, on an annual basis, with the Director of Risk and Assurance, External Auditors and Chief Finance Officer. These discussions are scheduled after the following Committee dates:

|                |                                |
|----------------|--------------------------------|
| 18 March 2020: | Chief Finance Officer          |
| 8 June 2020:   | External Auditors              |
| December 2020: | Director of Risk and Assurance |

## 4 **Current Plan**

- 4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

### **List of appendices to this report:**

Appendix 1 – Audit and Assurance Committee Forward Plan

### **List of Background Papers:**

None

Contact Officer: Howard Carter, General Counsel  
Number: 020 3054 7832  
Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)



## Audit and Assurance Committee Forward Planner 2019/20

## Appendix 1

**Membership:** Anne McMeel (Chair), Dr Lynn Sloman (Vice Chair), Kay Carberry CBE, Dr Mee Ling Ng OBE and Dr Nelson Ogunshakin OBE

| <b>18 March 2020</b>                                      |  |                    |
|---|--|--------------------|
| Risk and Assurance Quarterly Report                       | D. Risk and Assurance                          | Quarterly          |
| EY Report on Non-Audit Fees                               | Chief Finance Officer                          | Quarterly          |
| Integrated Assurance Plan 2020/21                         | D. Risk and Assurance                          | Annual             |
| Personal Data Disclosure to the Police and Other Agencies | D. Compliance, Policing and On-Street Services | Annual             |
| Register of Gifts and Hospitality                         | General Counsel                                | Quarterly          |
| IIPAG Quarterly Report                                    | Head of Project Assurance                      | Quarterly          |
| Strategic Risk Update - Protective Security (SR17)        | D. Compliance, Policing and On-Street Services | Annual             |
| * <sup>1</sup> Strategic Risk Review and Lessons Learned  | D. Risk and Assurance                          |                    |
| Financial Indicators                                      | Chief Finance Officer                          | Outstanding action |
| Garden Bridge – Assembly Report                           | General Counsel                                |                    |

| <b>8 June 2020</b>  |                       |           |
|---|-----------------------|-----------|
| Risk and Assurance Quarterly Report                             | D. Risk and Assurance | Quarterly |
| Risk and Assurance Annual Report                                | D. Risk and Assurance | Annual    |
| TfL Annual Report and Accounts                                  | Chief Finance Officer | Annual    |
| Review of Governance and the Annual Governance Statement        | General Counsel       | Annual    |
| EY Report to Those Charged with Governance                      | Chief Finance Officer | Annual    |
| EY Letter on Independence and Objectivity                       | Chief Finance Officer | Annual    |
| EY Report on Non-Audit Fees for Six Months ended 31 March 2020. | Chief Finance Officer | Quarterly |
| Annual Audit Fee 2020/21  | Chief Finance Officer | Annual    |
| Register of Gifts and Hospitality                               | General Counsel       | Quarterly |

<sup>1</sup> \*Not all strategic risks have been allocated for 2020 meetings at the time of reporting.

**Audit and Assurance Committee Forward Planner 2019/20**

| <b>8 June 2020</b>  |                           |           |
|---|---------------------------|-----------|
| Legal Compliance Report   | General Counsel           | Bi-annual |
| IIPAG Quarterly Report  | Head of Project Assurance | Quarterly |
| Strategic Risk Update - Governance and Controls Suitability (SR3) | General Counsel           | Annual    |

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