

Date: 18 December 2013

Item 11: Update on the Procurement of External Audit Services

This paper will be considered in public

1 Summary

- 1.1. The purpose of this paper is to update the Committee on the proposed tendering of external audit services for Transport Trading Limited (TTL) and its subsidiaries.

2 Recommendation

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

3 Background

- 3.1. KPMG was reappointed by the Audit Commission as TfL's auditors last year for a period of five years up to and including the year ending 31 March 2017.
- 3.2. Despite this, the Audit Commission announced in the summer that it was retendering those local government audits that were not subject to a formal tendering process last year, and this process includes the audit of TfL. The current appointment is therefore being terminated early and a new appointment will be made with effect from the year ending 31 March 2016.
- 3.3. The Audit Commission has already commenced their tendering process and expect to have identified auditors to be awarded contracts for local authority audits by 25 March 2014 with individual appointments being confirmed later in the year. TfL will be consulted by the Audit Commission in the summer of 2014 on the appointment of our auditor. The Commission will propose a particular firm and TfL will be asked to respond if there are any reasons why that firm should not be appointed.
- 3.4. The appointment of TfL's new auditor will be confirmed by the Audit Commission by 31 December 2014 at the latest. This appointment covers the audit of TfL and TfL Group, but does not include the audit of TTL and its subsidiaries.

4 Auditor of TTL

- 4.1. As the Audit Commission's procurement process does not extend to TfL's subsidiaries, it will be necessary to run a separate procurement process

complying with EU procurement requirements in order to appoint new auditors for the limited companies.

- 4.2. TfL approached the Audit Commission to request that it include wording in its advert or tender documents that would allow us the ability to call off against the Commission contract for the audit of the subsidiaries. So far it has declined to do this. The assumption at present is that TfL will be required to run our own tender for the subsidiary audits.

5 Proposed Procurement Process

- 5.1. It is proposed that a competitive tender should be run for the TTL Group audit using an existing Government framework, GPS ConsultancyOne. The relevant lot for External Audit Services has ten potential suppliers including all the big four firms and other large firms.
- 5.2. The tender process will be launched in the New Year with a view to achieving a short list by the time that the Audit Commission is ready to consult TfL on its new auditors.
- 5.3. The overall objective is to achieve value for money in the audit arrangements for the whole Group. There is the potential for fee reduction but this needs to be balanced against the potential inefficiency of having two firms of auditors involved to ensure best value overall. Our procurement process will explore how the auditors we may appoint to TTL would work with the Commission appointed TfL auditors.

6 Alternative Option Considered

- 6.1. The alternative to launching a tender in the New Year is to wait until the Audit Commission has completed its process and appointed a new auditor for TfL.
- 6.2. There is a risk that this route would not result in the most competitive bids from potential audit firms, since firms may choose not to bid if they are not appointed by the Commission as TfL's auditor. This option is not therefore recommended.

List of appendices to this report:

None

List of Background Papers:

None

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