

**Date:** 14 March 2017

**Item:** Local Audit and Accountability Act - Appointment of External Auditors

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**This paper will be considered in public**

**1 Summary**

- 1.1 This report aims to update the Committee on changes to the arrangements for appointing external auditors for TfL and its subsidiaries. The paper makes a recommendation on the arrangements for auditor appointment.

**2 Recommendation**

- 2.1 **The Committee is asked to approve the proposal to opt in to the national scheme for the appointment of auditors for a period of five years commencing with the audit of the 2018/19 financial year.**

**3 Background**

- 3.1 The Local Audit and Accountability Act 2014 (the 'Act') abolished the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015, the Secretary of State Communities and Local Government ('CLG') determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for the 2017/18 financial year.
- 3.2 TfL's current external auditors are Ernst & Young LLP, who were originally appointed to undertake the audit for the financial years 2015/16 and 2016/17. This contract has since been extended by one year to 2017/18 by Public Sector Audit Appointments Limited ('PSAA'), the successor body to the Audit Commission. When the transitional arrangements come to an end on 31 March 2018, TfL will be required appoint its own auditor.

**4 Options for local appointment of external auditors**

- 4.1 The Act sets out four broad options for the appointment of an auditor. These are:
- (a) to make a stand alone appointment through a TfL-only Audit Panel;

- (b) to set up a Joint Auditor Panel together with other local authorities responsible for auditor selection;
  - (c) to ask another authority's Auditor Panel to carry out the functions of the authority in question;
  - (d) to opt-in to a Sector Led Body appointed by the Secretary of State under the Act.
- 4.2 Three of the options involve the use of an auditor appointment panel. There are a number of practical difficulties associated with the establishment of such a panel, including identifying and recruiting suitably qualified independent members.
- 4.3 Given TfL's unique nature, using the panel of another authority would be unlikely to serve TfL's needs well. Establishing a joint panel might serve TfL better, although there is still the issue of recruiting suitable members.
- 4.4 The advantages and disadvantages of each option were set out in detail in the previous paper to the Committee of 11 October 2016.

## **5 National Scheme for Auditor Appointments**

- 5.1 Following the discussions at the 11 October meeting of the Committee, the possibility of opting in to the PSAA national scheme has been explored further and is considered to be an attractive option.
- 5.2 The PSAA has been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that PSAA will make auditor appointments to such bodies where they choose to opt in to the national auditor appointment arrangements.
- 5.3 Under the national scheme, audit appointments will be for five years starting with the year ending 31 March 2019.
- 5.4 PSAA are intending to run a procurement process that will lead to the award of audit contracts by the end of June 2017. Audit contracts will be let in two large contract areas with three or four contract lots per area. A number of firms will be awarded contracts in each area to help ensure that independence issues can be managed.
- 5.5 Following the award of the contracts there is then a process of allocating individual auditor appointments subject to checks on independence. This process will culminate in the appointment of an auditor to TfL only as the national scheme cannot extend to the audit of subsidiary companies.
- 5.6 Audit appointments for 2018/19 are required under the Local Audit and Accountability Act to be confirmed by 31 December 2017.
- 5.7 The national scheme should provide better value for money due to the economies of scale that are available with the nationally negotiated contracts.

## **6 Proposed Procurement Process**

- 6.1 While the process for awarding audit contracts to firms is underway, a competitive tender will be run for the audit of the Transport Trading Limited, potentially using an existing government framework, GPS ConsultancyOne. The tender process will be timed to achieve a shortlist by the time that PSAA is ready to consult TfL on its new auditors.
- 6.2 The overall objective is to achieve value for money in the audit arrangements for the whole Group. We worked with the then Audit Commission in 2014 to ensure value for money overall, and discussions with PSAA indicate that this should be achievable in the upcoming appointment process.

## **7 Financial Implications**

- 7.1 The annual audit fee for TfL Group and Corporation for the year ending 31 March 2017 has been set at £155,925. This excludes the fee for the audit of TTL and its subsidiaries, currently £750,000 per annum. Current fee levels for the TfL audit are based on discounted rates offered by audit firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. While it may not be possible to reduce these fees significantly, the national scheme is expected to result in a lower fee than that which would be achievable if TfL were negotiating its audit fee on a standalone basis. In addition, by opting in to the national scheme TfL avoids the cost of establishing and maintaining an auditor appointment panel.

## **8 Next Steps**

- 8.1 After opting in to the national scheme, a tender process will be launched for the audit of TTL and its subsidiaries for the same time period as that proposed under the national scheme.

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

None

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

Local Audit and Accountability Act 2014 – Appointment of External Auditors. 11 October 2016 meeting of Audit and Assurance Committee

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