

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

**SUBJECT: DLA PIPER REPORT ON THE LONDON DEVELOPMENT AGENCY**

**DATE: 29 SEPTEMBER 2009**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to inform the Committee of the key findings from the DLA Piper report on the London Development Agency (LDA) published in March 2009 and, in particular, highlight any issues that may be applicable to TfL and its operations. The Committee is requested to NOTE the contents of this report.

**2 BACKGROUND**

2.1 In response to a series of articles published in the Evening Standard concerning projects funded by the LDA, DLA Piper was commissioned to perform an independent review of past projects, including an element of compliance sampling.

2.2 Various categories of the project were selected for review. They included a number of matters that had featured in the media and which had become high profile and those companies that had been dormant when funding was provided or had gone into liquidation within 12 months of receiving funding. The overwhelming majority of projects reviewed involved funding of less than £1m.

2.3 The detailed report is 88 pages long has not been included as part of this paper. Copies of the full report are available on request from TfL Secretariat.

**3 KEY POINTS ARISING FROM REPORT**

3.1 A number of issues were highlighted by the report. These were: the lack of a central record as to what funds grant applicants were in receipt of and for what purposes; ineffective evaluation and closure of projects; an inconsistent approach taken to project monitoring by individual project managers; and inadequate financial due diligence.

**4 RELEVANCE OF FINDINGS TO TfL**

**TfL Control Framework**

4.1 Under section 159 of the Greater London Authority Act 1999, TfL is empowered to provide financial assistance to external bodies. There is a policy and process, supported by a range of controls, to cover the approval and monitoring of such payments. These controls are fully documented in, and disseminated through,

the Group Finance Manual. The controls that relate to the points highlighted in the LDA report are detailed below.

#### Project evaluation

- 4.2 A nominated manager of the grant recipient produces a closure report for each project which is submitted to TfL setting out the final scheme costs, the extent of the achievement of the anticipated benefits and the overall performance of the recipient.

#### Project monitoring

- 4.3 The grant recipient is required to submit scheme progress reports in accordance with terms and conditions set out in the original agreement and to the specified frequency, including costs incurred and physical progress to date and forecast to completion.
- 4.4 The Financial Services Centre reviews payments made to ensure that the approved authority level is not being exceeded.
- 4.5 TfL requires the right to access all relevant financial and procurement systems and documentation relating to the scheme to ensure that funds have been spent for the purposes for which they were awarded.

#### Financial due diligence

- 4.6 The specific terms and conditions of the grant are agreed with the modal head of finance, based on a risk assessment. Factors taken into account include:
- a) the financial standing of the recipient;
  - b) the extent and track record of business transactions undertaken with TfL to date; and
  - c) its organisational capability.

#### **Scale of Grant Activity**

- 4.7 As an organisation TfL is not comparable with the LDA in terms of the number of small grants given to external bodies. Total financial assistance given under section 159 as detailed in the 2008/09 Annual Report and Accounts was £190.3m. However, £170.4m of this was provided to London boroughs under the Local Implementation Plans. This is a well-established programme and process. The remaining payments made to other organisations amounted therefore to £19.9m. These comprised: £11.9m for Taxicard; £1.2m for Three Mill Lock; £2.5m for Olympic Velopark and £4.3m to other small projects.

#### **Internal Audit Review Work**

- 4.8 The controls in place within TfL over grant due diligence, monitoring and financial management have to date been found to be appropriate and effective.

- 4.9 Internal Audit carried out audit work during 2006/07 on TfL's compliance with its Financial Assistance Policy. The Interim Audit Report dated 19 January 2007 identified a number of issues concerning the visibility of the policy, the clarity of the policy and associated guidance, and compliance with the policy. The issues had all been satisfactorily addressed by the time the Final Audit Report was issued on 20 July 2007.
- 4.10 Based upon the low level of small grant activity, the significance of risks previously identified and the effectiveness of the control framework in place, no further work is currently planned by Internal Audit in this area, but it will be considered for inclusion in the 2010/11 Audit Plan.
- 4.11 TfL is committed to learning lessons from reviews performed in other organisations, particularly those in the GLA Group. However, in this particular case, there is no evidence that that the significant control weaknesses identified at the LDA are, or have been, paralleled in TfL.

## **5 RECOMMENDATION**

- 5.1 The Audit Committee is asked to NOTE the contents of this report.

## **6 CONTACT**

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