

Date: 15 September 2021

Item: Effectiveness Review of the External Auditors

This paper will be considered in public

1 Summary

- 1.1 To report to the Committee on external auditor effectiveness.
- 1.2 A more detailed paper is included on Part 2 of the agenda which contains exempt supplemental information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains detailed comments on Ernst & Young's (EY's) performance during the audit, which are commercially sensitive. 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 on Part 2 of the agenda.**

3 Background

- 3.1 The Committee's Terms of Reference require it to review formally the performance of the external auditors at least annually. This review covers the performance of the external auditors of all parts of the TfL Group where EY are auditor.
- 3.2 The Terms of Reference do not specify the means by which auditor performance is to be assessed. Other guidance is available, one of the more recent of which is the Financial Reporting Council 2016 publication "Guidance on Audit Committees". This is an update of guidance first published in 2003 and subsequently updated in 2008. It is based on the UK Corporate Governance Code, and although this relates to listed companies, the principles are also relevant to entities such as TfL.
- 3.3 The Guidance identifies four criteria in assessing external auditors:
 - (a) qualification;
 - (b) expertise and resources;
 - (c) effectiveness; and
 - (d) independence.

- 3.4 EY are the auditors of all entities within the TfL Group (with the exception of London Transport Museum which was audited by Moore Kingston Smith LLP). Both EY and Moore Kingston Smith LLP are “registered auditors” and are required to comply with The Statutory Auditors and Third Country Auditors Regulations 2016 which cover such matters as independence and integrity, maintaining competence, compliance with technical standards and monitoring compliance with the Regulations. These requirements ensure that the criterion regarding qualification is addressed.
- 3.5 Independence of the external auditors is dealt with through separate reports to the Committee on fees for non-audit services and on independence and objectivity, both reported twice a year. The external auditors are appointed by Public Sector Audit Appointments Limited, the successor body to the Audit Commission, under a statutory process, and this provides additional safeguards in terms of independence.
- 3.6 This paper deals with assessing the remaining two criteria in the Guidance, namely the effectiveness, and also the expertise and resources, of EY as external auditors. The Museum is not material to the Group as a whole and the effectiveness of the Museum audit was discussed by its own Audit Committee.

4 Methodology for Assessing External Auditor Effectiveness and Expertise

- 4.1 A questionnaire was devised and distributed to key finance staff and senior management to obtain their views on the conduct and effectiveness of the external audit, including the expertise and resources of the external auditors.
- 4.2 A separate questionnaire was also devised and distributed to Committee Members to assess the quality and effectiveness of EY’s performance and reporting across the Group in respect of the audit of the year ended 31 March 2021.
- 4.3 Responses from key staff were sought under four main headings:
- (a) audit planning and preparation;
 - (b) field work;
 - (c) closing meetings and sign-off; and
 - (d) general.
- 4.4 Responses from Committee Members were sought under the headings:
- (a) assessing the auditor’s judgements about materiality;
 - (b) risk assessment;
 - (c) nature and extent of audit work; and
 - (d) audit conclusions and auditor reporting.
- 4.5 The questionnaires provided respondents with an opportunity to comment on the specific questions and also respond on more general free-form topics.

- 4.6 Questionnaires were sent out to all parts of the business and to Committee Members, and most were completed and returned. Some parts of the business consolidated their responses into one return for that business unit. The Finance Shared Services Centre and the Group Accounting team were also covered.
- 4.7 Respondents were asked to score responses on a 1 to 3 scale, with 3 being the top score. Average scores were calculated for each part of the questionnaire.

5 Conclusions on External Auditor Effectiveness and Expertise

- 5.1 Overall, Members were satisfied with EY's performance as external auditors during 2020/21. Average scores ranged from 2.7-3.0.
- 5.2 TfL finance staff were also generally satisfied with EY performance. Given that this was the sixth year of EY as auditors the scores on average were higher than prior years with individual questions achieving average scores ranging from 2.4-3.0 (2019/20 2.1-3.0). The average score across all questions was 2.8 (2019/20 2.7).
- 5.3 It was noted that despite the challenges of remote working, the audit was well managed, and EY once again delivered a thorough audit to a tight timeframe. Some minor areas of improvement have been communicated to EY.
- 5.4 The questionnaire asked if there were any members of the audit team that TfL staff would single out for their strong personal contribution. Several names were mentioned and these have been fed back to the partners.

List of appendices to this report:

Exempt supplementary information is included in a paper on Part 2 of the agenda.

List of Background Papers:

None

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