

Date: 15 September 2021

Item: Appointment of External Auditors

This paper will be considered in public

1 Summary

- 1.1 This report updates the Committee on the arrangements for appointing external auditors for TfL and its subsidiaries. The paper considers the options available under the Local Audit and Accountability Act 2014 (the Act) and makes a recommendation for compliance.

2 Recommendation

- 1.1 **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 2023/24 financial year.**

3 Background

- 3.1 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 was extended by one year to 2017/18 by Public Sector Audit Appointments Limited (PSAA) prior to their reappointment by PSAA for the five-year appointing period 2018/19 to 2022/23.
- 3.2 During Autumn 2021, TfL, together with other local authority bodies, will need to make important decisions about its external audit arrangements for the period commencing from the financial year 2023/24. The existing arrangements are in place until 2022/23. Under the Act, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA. These options however relate only to the appointment of an auditor to the TfL Corporation itself. Transport Trading Limited (TTL) and its subsidiaries are obliged to undergo a separate commercial tender and appointment process for the appointment of their 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 ask another authority's Auditor Panel to carry out the functions of the authority in question or set up a Joint Auditor Panel with unrelated local

authorities;

- (b) to set up a Joint Auditor Panel together with other Greater London Authority (GLA) bodies
- (c) to make a stand-alone appointment through a TfL-only Audit Panel; and
- (d) to opt-in to a Sector Led Body appointed by the Secretary of State under the Act.

4.2 All of the options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So for the audit of the accounts of the 2023/24 financial year, there must be an auditor appointed by 31 December 2022.

4.3 TfL's views on the advantages and disadvantages of each option are considered below.

5 Option (a): Ask another authority's Auditor Panel to carry out the functions of the authority in question or set up a Joint Auditor Panel with unrelated local authorities

5.1 TfL differs in terms of both size and nature of activities to other eligible Local Authority bodies to such an extent that its considerations and priorities in selecting an auditor are also significantly different. The requirement for the audit of the TTL Group to be considered in appointing an auditor for the Corporation (and the strong preference that both appointment processes are aligned to result in the same auditor being appointed for the overall TfL Group) is an added layer of complexity. It is therefore not considered generally beneficial or appropriate for TfL to set up a Joint Auditor Panel with unrelated local authorities or to ask another authority's panel to carry out its Auditor appointment duties.

5.2 **This option is therefore not recommended.**

6 Option (b): Set up a Joint Auditor Panel with other GLA bodies

6.1 There is scope for investigating the possibility that a Joint Auditor Panel could be established between TfL and other functional bodies of the GLA. This would have some cost saving advantages in terms of reducing the duplication of effort in tendering separately for audits for each of the constituent bodies and also the costs of running separate Auditor Panels. However, it would be necessary to consider how any Joint Panel could be suitably constituted and empowered to be able properly to take into account TfL's particular circumstances, risk profile and audit requirements. It would also require the scope of the Joint Auditor Panel to be extended to include responsibility for the appointment of an auditor to the TTL Group of companies to avoid the issues highlighted in section 5.1 above.

6.2 Any Auditor Panel would also need to be set up with a majority of independent members as well as an independent chair. Independent members for this purpose specifically exclude board members, officers or employees of the local authority or any entity connected with it (which for TfL includes all

constituent bodies of the GLA and any entity with a key contractual relationship with any of them) and close families and friends of them. It also specifically excludes anyone who would have been considered connected at any point within the previous five years. Appointment of sufficient numbers of independent panel members, who have the requisite knowledge of TfL's organisational structure and audit requirements, would be challenging.

6.3 This option is therefore not recommended.

7 Option (c): Make a Stand-Alone Appointment through a TfL-only Auditor Panel

7.1 This option would give TfL the scope to select panel members with an appropriate skill set and understanding of TfL's particular circumstances that would enable the panel to make an informed choice as to the most suitable audit firm for the TfL Group. It would also provide TfL the flexibility to set up a panel with the authority to combine both the TfL and TTL audit tenders into a single exercise - thus maximising the efficiency of the selection process whilst minimising the risk of incurring unnecessary audit fees.

7.2 The challenge remains, however, as to how a sufficient majority of appropriately qualified and knowledgeable and yet completely independent members could be identified and recruited to sit on a TfL Auditor Panel. As under Option (b), members would need to be considered independent, not only of TfL itself, but again of any constituent body of the wider GLA family.

7.3 This option is therefore not recommended.

8 Option (d): Opt-in to a Sector Led Body

8.1 PSAA, the company operating the existing transitional arrangements for auditor appointments, has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 (the Regulations). This gives it the power to make auditor appointments and set fees on behalf of bodies who opt in, in accordance with the regulations. There is no fee levied directly by the PSAA to the local authorities for appointing auditors or for managing the arrangements. These costs are instead recovered through audit fees set by PSAA. The company is staffed by a team with significant experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees.

8.2 When appointment options were last considered by the Audit and Assurance Committee in 2016/17, the PSAA route was considered the most attractive as it avoids the challenges of establishing an independent auditor panel, and the administrative burden on TfL of managing its own procurement. Our experience to date has shown that PSAA have a robust process to achieve value for money, and they have been able to accommodate TfL's requirement for the same auditor for TfL and the wider Transport Trading Group through the consultation provisions in their appointment process.

8.3 This option is therefore recommended.

9 Financial Implications

- 9.1 The annual audit fee for TfL Group and Corporation for the year ending 31 March 2022 has been set at £120,062. This excludes the fee for the audit of TTL and its subsidiaries, which, for 2020/21 totalled £1.517m. Due to changes in the audit market, and increased audit requirements, it is likely that the TfL element will increase. However, the national scheme is still 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.

10 Next Steps

- 10.1 PSAA has recently conducted a consultation outlining its planned procurement strategy for the next audit term alongside a separate engagement exercise to understand the views of the audit market. It's aims are to ensure that an auditor is appointed to all local authorities for the full proposed five year term, whilst achieving value for money and aiming for a procurement and audit management process that reduces the delays experienced in the local authority audits over the last couple of years.
- 10.2 Under the PSAA proposals, audit appointments are likely to be for five years starting with the year ending 31 March 2024. Eligible bodies will be invited to opt in during an invitation period expected to launch in September 2021 and run through to January 2022.
- 10.3 PSAA is intending to:
- (a) publish the strategy and process for making individual auditor appointments for opted-in bodies from 2023/24 during spring/summer 2022;
 - (b) consult with opted-in bodies on proposed auditor appointments during the late summer/autumn 2022; and
 - (c) confirm all auditor appointments by 31 December 2022.
- 10.4 After opting in to the national scheme, a tender process will be launched internally by TfL 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:

None

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