

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: INTERNAL AUDIT STATEMENT OF STRATEGIC DIRECTION

DATE: 29 SEPTEMBER 2009

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to ask the Committee to approve the proposed Internal Audit Statement of Strategic Direction ('the Statement') and note progress with the Balanced Scorecard.

2 BACKGROUND

- 2.1 It is best practice, and a requirement of the CIPFA Code of Practice for Internal Audit ('the Code'), for internal audit functions to have an overall strategy. This strategy should cover:

Objectives and outcomes

- (a) How the Director of Internal Audit will form and evidence his/her opinion on the control environment to support the annual Statement on Internal Control;
- (b) How Internal Audit's work will identify and address significant local and national issues and risks;
- (c) How the service will be provided; and
- (d) the resources and skills required to deliver the strategy

The strategy does not have to be in one document. Together with this statement, our strategy is set out in:

- (a) The Audit Planning Document presented to the Audit Committee each November;
- (b) The Internal Audit Charter (an update of which is on this agenda for approval); and
- (c) The Internal Audit Annual Report presented to the Audit Committee each June.

The Code states that 'the strategy should be approved, but not directed, by the Audit Committee'.

- 2.2 Internal Audit has always had objectives included in the Internal Audit Charter. In common with other parts of TfL, we have developed a Vision, Mission and Goals statement and our original objectives have been retained as the Mission Statement.
- 2.3 The Statement, which covers the period from 2009/10 to 2013/14, sets out where we currently are against our goals and what further action is to be taken

to improve. A copy of the Statement is attached as Appendix 1.

- 2.4 It is possible that a revision of the Statement may be needed to reflect changes in the short to medium term and the Committee will be invited to agree changes to the Statement as appropriate.
- 2.5 Based on the Statement, and following on from a recommendation in KPMG's effectiveness review, we are working on a balanced scorecard to provide key performance indicators (KPIs) against which we can monitor departmental performance. The intention is to extend the reporting to the Audit Committee to include relevant KPIs with effect from quarter 2.

3 RECOMMENDATION

- 3.1 The Audit Committee is asked to APPROVE the proposed Internal Audit Statement of Strategic Direction.

4 CONTACT

- 4.1 Contact: Mary Hardy, Director of Internal Audit
Email: MaryHardy@tfl.gov.uk
Phone: 020 7126 3022

TfL Internal Audit

Statement of Strategic Direction
2009/10 to 2013/14

Internal Audit Vision, Mission and Goals

Vision: World Class assurance and advice for a World Class transport system

Mission: - to provide independent assurance and advice to the TfL Board and Audit Committee on all aspects of corporate governance across the TfL Group
- To provide advice and assistance to Senior Management in carrying out their internal control responsibilities, including matters of risk, policy, procedure and compliance

Valued

As a knowledgeable and cost effective provider of independent assurance

Trusted

For being professional and consistent in applying best practice standards to our work

Respected

For being flexible in our planning approach yet fearless in expressing our opinion

Passionate

About improving value for money, driving efficiency in our organisation and improving the control environment

Recognised

By our peers as a leading internal audit practice

Introduction and Background

This statement forms one element of our overall audit strategy and is intended to set out, for our staff and customers, the guiding principles that will govern our work over the next five years.

This statement is in line with the CIPFA Code of Practice, which requires Internal Audit to have a strategy in place to communicate the contribution we make to the organisation and in particular to include:

- Objectives and outcomes
- How the Director of Internal Audit will form and evidence his/her opinion on the control environment to support the annual Statement on Internal Control
- How Internal Audit's work will identify and address significant local and national issues and risks
- How the service will be provided
- The resources and skills required to deliver the strategy

The strategy does not have to be in one document. Together with this statement, our strategy is set out in:

- The Audit Planning Document presented to the Audit Committee each November
- The Internal Audit Charter
- The Internal Audit Annual Report

The Code states 'the strategy should be approved, but not directed, by the Audit Committee'.

Scope

As set out in the mission statement, Internal Audit has a broad remit which covers all business risks, all business activities, all internal audit activities (including consultancy and advisory) and all aspects of fraud, from awareness to investigation.

At the date of this document, the entities covered by Internal Audit are:

- TfL Corporate
- London Underground (including the Nominee Companies)
- Surface Transport
- London Rail
- Crossrail
- London Transport Museum
- TfL Pension Fund

The services provided by Internal Audit include:

- audit
- advisory/consultancy on controls and processes
- investigations into control/process breakdowns or errors
- advisory on corporate governance issues
- fraud awareness training
- fraud prevention and detection
- fraud investigations

We will continue to offer these services to all the entities within the TfL Group to the best of our ability and in accordance with best practice.

VALUED

as a knowledgeable and cost effective provider of independent assurance

POSITION STATEMENT

We are knowledgeable about the business, internal audit best practice, fraud risk and procedures. We have staff with backgrounds in a range of disciplines with expertise that enhances and help maintain that knowledge base.

Every annual audit plan considers how we can deliver assurance in the most cost effective and efficient manner and we use co-sourcers to provide additional expertise on an 'as needed' basis

The quantum of our resource is reviewed each year in light of the audit plan and is approved by the Audit Committee at the same time as it approves the plan. Although benchmarking is not an exact science, it is included as part of the triennial effectiveness review carried out by our external auditors and this also gives us guidance as to whether our resource levels are commensurate with best practice and the perceived level of assurance TfL's risks require.

WE WILL CONTINUE TO:

- Keep ourselves abreast of business developments to ensure our audits are appropriate by means of regular discussions with management and review of documentation such as Board and Committee papers and BMR reports
- Ensure we plan appropriate interventions on major projects by attendance at Project Boards or receipt of Board and Committee papers to ensure we are knowledgeable about developments and risks
- Attend key project meetings and working groups to maintain our knowledge and ensure audits are carried out at the most appropriate time
- Recruit staff from varied backgrounds to maintain our skill base
- Keep resource levels under review to ensure an adequate but sufficient number of staff are available with the right mix of skills
- Report our findings on a timely basis via internal audit reports, Commissioner's periodic memos, BMRs and quarterly reports to the Audit Committee
- Seek customer feedback to check that our work is still valued by the auditees

WE WILL TAKE ACTION TO:

- Refresh our audit planning approach for 2010/11 to identify ways to 'audit smarter, quicker' and deliver maximum assurance for minimum audit effort
- Train a core of specialist SAP auditors to ensure we maximise our use of SAP audit tools
- Consider whether our efficiency could be improved by purchasing and utilising other audit software to improve process
- Improve our liaison with other assurance providers to ensure we understand their scope: assure ourselves we can rely on their work; and take their work into account in both planning our own and arriving at our annual audit opinion. To achieve this we will build on preliminary work that has been done to bring together all assurance groups within TfL. This group will also consider whether there are ways we can work together more efficiently by sharing resources, providing training across the groups and offering career development opportunities.
- Review the quantum of resource to ensure we have sufficient staff to provide internal audit services to Crossrail
- Ensure we use our co-sourcers in the most effective manner and consider scope when we relet the co-sourcing contract which expires in April 2010
- Review the format of audit reporting to ensure it provides assurance to readers in an effective and efficient manner
- Continue to improve the format and content of reporting to the Audit Committee on a quarterly basis

TRUSTED

for being professional and consistent in applying best practice standards to our work

POSITION STATEMENT

The work of Internal Audit is guided and directed by two key documents: the standards set from time to time by the Institute of Internal Auditors, and the Code of Practice for Internal Audit in Local Government in the United Kingdom published by CIPFA. It is a given that everything Internal Audit does will be in accordance with these publications which are regarded as setting best practice.

In respect of our work on fraud related matters, we apply the principles laid down in the CIPFA Better Governance Forum – Managing the Risk of Fraud (The Red Book).

All staff are required to have, or obtain, a professional qualification in internal audit or fraud and to undergo continuous training in those disciplines.

Our processes are set out in our Audit and Fraud Manuals and supporting materials. All our audit and investigation work is recorded using an electronic work paper package (AutoAudit) which enables us to ensure due process is followed, all our work is adequately recorded and reviewed and supporting documentation and final versions of all reports are securely retained. Quality control is built into these processes and we also have a separate quality assurance process which involves one Senior Audit Manager each year peer reviewing a number of audits to ensure they have been done in accordance with procedure. In addition, the external auditors review our work each year as part of their annual audit and carry out a full effectiveness review every three years.

WE WILL CONTINUE TO:

- Update our Audit and Fraud Manuals every two years or more frequently should best practice change
- Improve our quality assurance processes and in particular ensure the SAM quality assurance review is carried out effectively
- Ensure our induction processes for staff include adequate training in processes and electronic tools
- Keep IT tools under review to ensure we are maximising the efficiencies available to us in the audit process and also enhancing our data analysis capability for fraud prevention, detection and investigation purposes
- Maintain our training strategy up to date and ensure it is adhered to
- Support all our staff in maintaining and developing their professional qualifications to support IA's professionalism and ability to work to best practice standards

WE WILL TAKE ACTION TO:

- Improve our use of technology by considering whether it needs either replacing by an alternative product or upgrading to the web version
- Continue to build our risk based auditing processes as risk management in TfL becomes further embedded.
- Improve detection and analysis of fraud through a process of intelligence led counter fraud activity.
- Complete audits and investigations in a timely manner and develop targets to manage the elapsed time these processes take.

RESPECTED

for being flexible in our planning approach yet fearless in expressing our opinion

POSITION STATEMENT

It is recognised that business changes so rapidly that a fixed annual plan would rapidly become irrelevant. We therefore prepare an outline plan and confirm the detail quarterly via discussions with management to ensure we are providing assurance on the right risks at the right time.

Fraud awareness and prevention activities can be pre-planned to some extent, but investigation work remains a reactive service.

The Director of Internal Audit is required to provide the Audit Committee with an annual opinion on the internal controls within the TfL Group. All the work we do contributes to this opinion and will be challenged as to relevance if it does not. To achieve this, Internal Audit requires access to all areas of the business at all times. This is set out in the Internal Audit Charter which is approved by the Audit Committee and updated as necessary to ensure it is best practice.

WE WILL CONTINUE TO:

- Present a planning paper to the Audit Committee annually towards the end of the calendar year
- Ensure our planning is done in accordance with best practice
- Prepare an annual outline plan based on TfL's strategic risks but enhanced by whatever further work is deemed necessary to ensure adequate coverage of financial controls and code of governance matters
- Confirm the audit plan on a quarterly basis by means of discussions with senior management and Chief Officers
- Be flexible in our audit planning so that audits will be retimed or rescoped to meet management requests provided that this does not interfere with our ability to do sufficient work in time to support our annual audit opinion
- Continuously improve our approach by considering internal feedback and findings from external reviews of our work
- Be robust in drawing conclusions based on our findings and not on the preferences of the auditee
- Prepare an annual audit opinion, in accordance with best practice, which draws upon all the work we have done during the year
- Conduct fraud investigations in a professional and unbiased manner

WE WILL TAKE ACTION TO:

- Improve our escalation process so that reports with 'poorly controlled' conclusions in particular are not delayed unreasonably.
- Improve our planning approach by continuing with the strategy day run by E&Y (first done in 2009) which helps us take account of an informed outsider's view of the key issues facing TfL and emerging best practice in Internal Audit.
- Align fraud awareness, pro-active detection and prevention work with the Audit Plan where applicable
- Ensure the annual opinion clearly explains the basis of assurance and other sources relied upon

PASSIONATE

about improving value for money, driving efficiency in our organisation
and improving the control environment

POSITION STATEMENT

Internal Audit's mission is to provide independent assurance and advice to the TfL Board. We are passionate about retaining independence of delivery and our ability to provide real assurance to the TfL Board.

We recognise that the higher the risk, the greater the need for independent assurance. Our audit and other activities are therefore prioritised in line with the organisation's strategic risks.

Internal Audit strive to deliver the audit programme with professional enthusiasm and determination.

WE WILL CONTINUE TO:

- Work diligently to provide independent assurance and advice to the TfL Board
- Determine where existing controls require improvement and ensure that local management buy-in to the actions required to manage the risk effectively and efficiently
- Identify where local management require greater emphasis on value for money and help instil a proactive approach to efficient resource utilisation

WE WILL TAKE ACTION TO:

- Work proactively with the Crossrail management team to develop ways of working that meet the unique needs of TfL's largest project.
- Support the activities of the OCR review of the internal audit costs and value
- Focus specific audit topics on value for money and cost consciousness to help drive through new initiatives to reduce cost
- Further develop our professional approach to audit through specialist technical training to help ensure that we are as good as we can be

RECOGNISED

by our peers as a leading internal audit practice

POSITION STATEMENT

We are subject to a regular effectiveness review by TfL's external auditors, most recently in 2008, which confirmed that, subject to some non-significant administrative points, we are compliant with ICAEW and CIPFA guidelines.

Other indicators include:

- The high commendation received for our Contract Audit Toolkit in the 2009 Cliff Nicholson Award,
- our chairmanships and memberships of a number of professional bodies and their committees,
- the frequent requests for members of the team to speak at conferences and;
- the number of other audit teams who contact us to benchmark their performance and procedures against ours.

WE WILL CONTINUE TO:

- Take part in professional activities including serving on committees and accepting speaking engagements where we feel this will add value to our own work or professional development as well as enhancing our reputation
- To recruit specialists to retain our position as a leading edge Internal Audit department.

WE WILL TAKE ACTION TO:

- Better inform TfL of our external activities
- Consider each year whether we have a process that could be entered for the Cliff Nicholson Award (this is the only award available to recognise good practice in internal audit)
- Provide a placement for a 'sandwich year' student, which will enhance our profile as an employer, as well as providing us with an alternative means of obtaining resource. If this is successful we will look into expanding this type of scheme in the future