

Date: 18 June 2014

Item 11: Internal Audit Annual Report 2013/14

This paper will be considered in public

1 Summary

1.1 The purpose of this report is to summarise Internal Audit activity for the year ended 31 March 2014, to account for the use of resources and provide an opinion on the internal controls as required by the Public Sector Internal Audit Standards.

2 Recommendation

2.1 The Committee is recommended to note this report.

3 Audit Opinion

3.1 Based on the work the Department has completed during the course of the year, which is set out in more detail below, and taking into account other sources of assurance including:

- (a) Project reviews carried out as part of the Integrated Assurance Review Process (including the work of the Independent Investment Programme Advisory Group);
- (b) the work of other management assurance teams;
- (c) a review of the Control Risk Self Assurance (CRSA) exercises within TfL; and
- (d) the assurance letters prepared for Health, Safety and Environment (HSE) and Resilience;

we have concluded that TfL's control environment is adequate for its business needs and operates in an effective manner.

3.2 Internal Audit's work has been carried out in accordance with Public Sector Internal Audit Standards.

3.3 There have been no matters arising from any of the work we have completed that require to be brought to the attention of the Committee.

3.4 There have been no restrictions imposed on the scope of the internal audit function.

3.5 In addition, using assurance gained from our audit work on governance matters we can conclude that TfL's code of governance, including internal control, is adequate and effective.

4 Work Done

Introduction

4.1 Internal Audit work falls into two main areas namely audit assurance as set out in the Audit Plan; and Fraud Awareness, Prevention, Detection and Investigation. In addition, we provide advice on controls and processes both via reviews and by attendance at working groups. The sections below explain the work that has been done in these areas in the past year.

Audit assurance

4.2 In any year, the Audit Plan can change significantly as projects and procurements are revised or re-programmed and new or changing risks take priority. For this reason, we use a "rolling" plan which means we confirm our audit schedule on a quarterly basis, although we have a view as to the work we aim to complete during the next twelve months.

4.3 The proportion of Internal Audit (including HSE and Technical (HSE&T)) time spent by business area was:

	Actual 2013/14 (%)	Plan 2013/14 (%)
Pan TfL	14.3	15.8
Rail and Underground	48.0	42.1
Surface Transport	8.3	9.4
Specialist Services	21.0	22.9
Crossrail	6.8	7.4
Other (LTM/ Pension Fund)	1.6	2.4
	<u>100</u>	<u>100</u>

4.4 The actual time analysed above includes time spent on audits brought forward from the 2012/13 plan.

4.5 The planned and actual time allocations are similar, with a somewhat higher proportion of time allocated to Rail and Underground than planned, and slightly lower proportions in other areas.

4.6 A number of audits in the 2013/14 Audit Plan were still in progress at 31 March. We also completed some audits carried forward from the 2012/13 Audit Plan during the year. The number of Interim Audit Reports, other outputs, including advisory reports

and memorandums, and HSE&T reports issued during the year and in 2012/13 are set out in the table below. The overall level of output is a little higher than in the previous year.

	Interim Audit Reports					Other Outputs (Advisory Reports/ Memos)	Sub-Total	HSE&T Reports	Total
	WC	AC	RI	PC	Total				
2013/14	5	24	24	5	58	37	95	97	192
2012/13	5	18	24	3	50	43	93	86*	179

* - HSE&T Reports were not controlled by Internal Audit until the last quarter of 2012/13

- 4.7 Overall, our work indicates that the standard of control remains at a similar level to 2012/13. There were five reports issued with 'poorly controlled' conclusions compared to three in the previous year, but also a higher proportion of reports with an 'adequately controlled' conclusion.
- 4.8 There are no trends highlighted by the 'Poorly Controlled' reports, which covered a range of different activities: Emirates Airline Revenue Collection; London Transport Museum Security; Estates Management; HR Document Management; and Organisation and Management of Firewalls.
- 4.9 A more detailed summary of audit work carried out during the year can be found in Appendix 1.
- 4.10 We follow up all previously issued interim audit reports to confirm that agreed management actions have been implemented, and issue a final audit report of our findings. Follow up audits and resulting final reports indicate that management action plans agreed as part of the audit process are being completed effectively and on a timely basis. Out of 50 final audit reports issued, there was only one, in relation to London Transport Museum Stock, that we were not able to close as a result of actions being incomplete. We have subsequently carried out a second follow-up review and the audit is now closed.

Other Work

- 4.11 In addition to the planned audit work above, we have also continued to be involved in a range of steering groups and other governance bodies, and have been represented on the following during the year:

- (a) Assurance Delivery Group
- (b) IM Steering Group
- (c) SAP GRC Governance Council
- (d) Value Group
- (e) End User Computing (EUC) Programme Board
- (f) Resilience Steering Team
- (g) Accommodation Strategy Implementation Programme Board
- (h) Crossrail Integrated Assurance Group
- (i) Crossrail Fraud Risk Assurance Group
- (j) Ensuring Efficient and Effective Support Solutions

4.12 This involvement enables us to provide input on risk management and control matters at an early stage in major projects as well as allowing observation of project and other governance processes.

Other Assurance Providers

4.13 Throughout the year, we have received regular updates on the project assurance work led by the Programme Management Office (PMO) through the Integrated Assurance Review (IAR) process, including the work of the Independent Investment Programme Advisory Group (IIPAG). Copies of reports prepared by these teams have been shared with us as required. A summary of this work has been included in the Director of Internal Audit's quarterly reports to the Audit and Assurance Committee, and it has been taken account of in arriving at the overall conclusion on the effectiveness of TfL's control environment.

4.14 In Crossrail, there is a range of other assurance activity that we take into account in arriving at an overall opinion on control effectiveness in Crossrail, as follows:

- Crossrail compliance audits, managed by the Senior Audit Manager (SAM) – Crossrail, which are technical audits of compliance with the Crossrail Management System;
- Contractor Health and Safety, Quality and the Environment (HSQE) audits, also managed by the SAM – Crossrail, providing assurance across a range of contracts and themes that contractors have effective HSQE systems in place;
- A Contractor Commercial Review function providing assurance over the commercial performance of contractors, covering cost; contract management; risk management; commercial value; supply chain and procurement; and anticipated final cost management and controls; and
- External Lloyds Register Quality Assurance (LRQA) review of the Crossrail Management System.

- 4.15 The outcomes from this work are reported quarterly to the Crossrail Audit Committee, and summarised for this Committee as part of the Internal Audit quarterly reports. There are no significant issues that need to be brought to the Committee's attention.

CRSA including assurance letters

- 4.16 CRSA is a process that enables management to assure themselves that key controls are operating across a whole process. It can reduce, but not eliminate, the need for internal audit. The CRSA returns are reviewed by Internal Audit to ensure they are in line with audit findings during the year and to ensure the assurance gained is taken into account for the internal audit opinion.
- 4.17 The CRSA process is now managed by the Financial Services Centre (FSC). Internal Audit have worked with staff in the FSC during the year on reviewing the scope, content and sign off process for the CRSA, ready for use across the business in May 2014. This review examined the risk and control frameworks to confirm with each business area that they remained current and relevant.
- 4.18 Work is planned for 2014/15 to review how the CRSA process interfaces with the Finance Assurance Maps and Internal Audit work in order that it becomes a regular part of the risk review process, and so that control items identified through internal audit work can be incorporated more visibly and easily.
- 4.19 Separately to the CRSA process, TfL also produces annual assurance letters for HSE and Resilience, which are also reviewed by Internal Audit.

Fraud Prevention, Detection and Investigation

- 4.20 We conducted a number of fraud awareness sessions during the year to over 300 TfL staff in total. We have also continued to roll out a series of Fraud Risk Workshops to Crossrail staff including the Finance and Procurement teams and have another planned with the Commercial team. We also gave a presentation on fraud risk management to the TfL Accountants' CPD training day.
- 4.21 We have continued to publicise successful outcomes of fraud investigations both internally on 'Source' and externally in the media, in addition to regularly publishing Fraud alerts and notices warning staff of current and emerging risks in their work and personal life. We have received positive feedback on this.
- 4.22 We conduct data analytical exercises both in support of ongoing investigations and in our preventative work to provide assurance that processes are not being abused for fraudulent reasons. During the year this included some work with the LU Commercial Cost Assurance team to assist them with analysis of contract costs to provide assurance that these are not fraudulent in nature.

4.23 Where applicable we always take steps, in liaison with the business, to ensure that appropriate improvements are made to internal controls to prevent frauds from recurring.

4.24 There were 36 new investigations started during 2013/14, and 25 cases brought forward from 2012/13. There were no significant trends identified from our investigations.

4.25 The disposal of cases throughout the past year (previous year's totals in brackets) is as follows:

	Investigations	
In Progress at 1 April 2013		25 (19)
New since 1 April 2013		36 (30)
Closed since 1 April 2013	No Crime/ Offence established	8 (8)
	Disciplinary Action Taken	7 (1)
	Police/ Judicial Action Taken	26 (15)
	Sub Total	41 (24)
In Progress at 31 March 2014		20 (25)

4.26 The higher number of closed cases during the year that led to police/ judicial action in part reflects the mix of cases, including several involving 'void' transactions by ticket stop agents. However, this also demonstrates the Fraud Team's effective working relationship with the Safer Transport Command embedded within Surface Transport, and the quality of the evidence compiled to support the cases.

4.27 The 36 (30) new investigations consist of 30 (24) fraud cases, 4 (5) reports of theft and 2 (1) 'other' types of case.

4.28 Reports were received from the following sources:

Source	2013/14	2012/13
Internal Audit	0	1
Internal Control	4	7
Staff Member	29	12
Member of Public	1	6
Law Enforcement Agency	2	1
Anonymous	0	3
Totals	36	30

5 Internal Audit Strategy

5.1 During the year we produced our Internal Audit Strategy 2013, which was presented to the Committee in December. The purpose of the Strategy is to set out the department's priorities for developing its services to the business over a three to five

year period. The Strategy is aligned with the four TfL strategic pillars – Customers, People, Delivery and Value for Money – and under each heading sets out a number of key deliverables for the development of the Internal Audit Service.

- 5.2 The Internal Audit Leadership Team have been working on development specific actions through which to implement these deliverables. The status of these deliverables is set out in Appendix 2.

6 Resources

Staff

- 6.1 Early in the year six auditors from Tube Lines transferred into the department, and another auditor, from Powerlink, joined the department under a TUPE transfer during August, taking the total budgeted headcount to 59.
- 6.2 The Senior Audit and Investigations Manager – Fraud and Security retired during the year. It was decided that he would not be replaced, and the reporting line for the Security Audit Team was moved to the Senior Audit Manager – IM to take advantage of synergies between IM audit and the cyber-security agenda. The Fraud Team, led by the Fraud Investigation Manager, now reports directly to the Director of Internal Audit.
- 6.3 There have also been several other staff changes during the year. One of the HSE&T audit managers retired, and five auditors left the department. All of the resulting vacancies have been filled.

Staff training and development

- 6.4 Our training strategy sets out the standards we require for all staff both to maintain their existing professional qualifications and to ensure they receive sufficient continuous training in internal audit and fraud investigation (as appropriate) to keep them up to date with best practice. All of our joiners into audit positions who do not have previous audit experience must complete the Chartered Institute of Internal Auditors (IIA's) Certificate of Internal Audit during their first year in the department.
- 6.5 We monitor training to ensure all staff are achieving the requisite standard. We have kept within our training budget through judicious selection of courses, including making use of free or discounted courses where possible, and are comfortable that the training provision is sufficient for us to maintain our high standard of professionalism.

Co-sourcing

- 6.6 A GLA-wide contract for Specialist Internal Audit Services with RSM Tenon is in place that we could use to help us resource our audit work if required. However, we have not made use of the contract during the year.

7 Internal Audit Processes

- 7.1 In accordance with CIPFA and IIA standards we carry out an annual internal review of the department's performance. In addition, every three to four years, we commission an external review of our performance. The most recent external review was carried out by KPMG in 2012 which, whilst generally positive, highlighted a number of areas for further development, and we agreed an action plan to take forward the matters raised. All of these actions have either been completed, or are in progress and have been incorporated into the Internal Audit Strategy. Details of the status of the actions can be found in Appendix 3.
- 7.2 During 2013/14 we carried out an internal review to evaluate our performance and conformance with IIA Standards, our Audit Manual and performance measures. For the first time the HSE&T team were included in the review. The overall assessment was that we conformed to the IIA Standards and the relevant policies and procedures. Some opportunities for improvement were noted particularly in relation to quality and consistency of supporting documentation and these will be addressed over the coming months.
- 7.3 We seek to continuously review and enhance our audit processes to ensure they are best practice and meet the needs of the business. During the year we have been working to enhance our audit management software particularly with regard to the way we track the completion of audit actions. Once the new functionality is implemented, we will have access to improved real time information on the status of audit actions with less reliance on the follow up review to confirm they have been completed.

8 Integrated Assurance

- 8.1 In March, the third annual Integrated Assurance Plan (IAP), covering all Internal Audit, HSE Audit and Project Assurance work planned for 2014/15, was approved by this Committee.
- 8.2 For the first time, we were able to include in the IAP details of assurance work planned for HSE audit functions that are embedded within the business and operate outside of Internal Audit (eg the Surface Transport HSE Team).
- 8.3 Significant progress has been made in identifying and working collaboratively with these 'embedded audit' functions. In November 2013, the Assurance Delivery Group (ADG) recommended updates to the Integrated Assurance Framework (subsequently approved by this Committee), which set the requirement for audits to be planned and undertaken in a manner that is consistent across TfL, by competent auditors and to common standards. This provides a sound basis on which to integrate all audit activity.

- 8.4 Quarterly Assurance Progress Reports to the Operating Boards, prepared by Internal Audit, now incorporate details of some of the embedded audit activity, and arrangements are being put in place to include the rest.
- 8.5 We have been discussing with Rail & Underground how the assurance progress reporting can be better integrated with strategic risk management, and it is proposed that risk and assurance will both be reported to the Rail & Underground Value & Sustainability Programme Board in 2014/15.
- 8.6 The transfers of the HSE&T audit teams into Internal Audit have proven highly successful, with extremely good feedback from the business on the audits carried out. The extra independence, rigour and authority for HSE audits arising out of this integration have been very beneficial.
- 8.7 Close liaison between risk and assurance functions has continued, with regular collaboration through the ADG, a working group of the ADG, assurance planning workshops, and ad-hoc cooperation on specific tasks.
- 8.8 Progress with development of assurance maps has continued. A Project Assurance map was completed and work on Finance assurance maps is in progress. In particular an exercise to map the primary revenue processes, and the associated risks and controls is well underway as a precursor to developing an associated assurance map.

9 Networking

- 9.1 To ensure that TfL's Internal Audit department remains up to date and understands best practice, it is important that we engage with other Internal Auditors and Fraud Investigators as well as attending and speaking at conferences relevant to our professional and business needs. The Department has memberships of the Chartered Institute of Internal Auditors (IIA), CIPFA and the Association of Certified Fraud Examiners among others, which means we receive copies of publications, newsletters and updates from these bodies that assist in ensuring that we are up to date.
- 9.2 Members of the team also belong to a range of external bodies, including the London Audit Group; the IIA Guidance and Editorial Committee; the Information Systems, Audit and Controls Association (ISACA); the Association for Project Management (APM) Specific Interest Group on Assurance; the APM Audit Committee; the Institute of Risk Management; the Institute of Occupational Safety and Health; the Security Institute; the London Fraud Forum; the National Federation of Fraud Forums; the London Committee of Crimestoppers; and the Fraud Advisory Panel.

10 Customer Feedback

10.1 At the end of every audit, we send out a customer feedback form to the principal auditee(s) requesting their views on the audit process and the report. The form is questionnaire based so it can be completed easily and quickly. A copy of the questionnaire, including a detailed analysis of the results, is included in Appendix 4.

10.2 The return rate for feedback forms in 2013/14 was 56 per cent, an improvement over the 49 per cent achieved in 2012/13. The summary of scores received in the year is as follows:

	Very good %	Good %	Satisfactory %	Poor %	Very poor %
2013/14	34	44	16	6	0
2012/13	35	41	18	5	1

10.3 The majority of respondents continue to be satisfied with the way we carry out our work, with the scores very consistent with the prior year. All feedback which is less than satisfactory is followed up by the Director of Internal Audit to ensure the concern is understood, discussed with the audit team and lessons learned where appropriate.

List of appendices to this report:

Appendix 1 – Overview of Internal Audit and Other Assurance Work 2013/14

Appendix 2 – Internal Audit Strategy 2013 – Status Update

Appendix 3 – Status of Actions Arising from KPMG Effectiveness Review 2012

Appendix 4 – Customer Feedback Form – Summary of Responses for 2013/14

List of Background Papers:

Audit reports.

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Transport for London

Audit and Assurance Committee

Overview of Internal Audit and Other Assurance Work – 2013/14

1 Background

- 1.1 The 2013/14 Integrated Assurance Plan highlighted some key areas that would be covered by our work during the year. The following paragraphs set out our work done in respect of those and other areas.

2 Savings and Efficiencies

- 2.1 Our audit plan for 2013/14 included a review of the benefits and efficiencies achieved across a number of Specialist Services areas following organisational change. We have incorporated our review into a lessons learned review, entitled Ensuring Efficient and Effective Support Solutions (EE&ESS) led by the Chief Finance Officer. One of our auditors has been assigned to the EE&ESS, and the review was just getting underway at the year end.
- 2.2 Tube Lines had its own efficiency programme, managed by Asset Management and Planning within Asset Performance JNP. An audit found effective controls and processes to provide assurance that the efficiency programme was on target and what was being reported was accurate and measurable.
- 2.3 A review of the efficiencies programme in the London Transport Museum (LTM) was in progress at year end.

3 Project and Contract Management

- 3.1 We issued 12 interim audit reports in 2013/14, two consultancy reports, and 11 memorandums. Four of the audit reports had a 'Requires improvement' conclusion, six were 'Adequately controlled', and the remaining two were 'Well controlled'.
- 3.2 The audit reports and memorandums result from a diverse mix of audits, including eight of specific projects, procurements and contracts, and with the rest covering general project and contract management activities and processes.
- 3.3 An effective way of providing assurance over important procurements is through 'real time' audits focused at key stages of the procurement process. We have worked on four of these during 2013/14, covering: the

Docklands Light Railway (DLR) refranchise; procurement of a new ticketing service provider; establishment of a new Professional Services Framework, and procurement of the future Crossrail train operator. These are all long procurements, and audit work on them will continue through a significant part of the next financial year. Interim conclusions on each are that the procurements are being managed effectively.

- 3.4 As well as these real-time audits, we also audited the process by which new bus services are procured on a cyclical basis. We found this to work well, with a revised supplier selection process introduced during the previous year operating effectively. The only issue was that there was heavy reliance on a paper-based process, and we recommended moving to using an electronic system.
- 3.5 Primary responsibility for providing assurance over individual projects sits with the TfL Programme Management Office and Independent Investment Programme Advisory Group (IIPAG), and we only carried out audit work on one individual project during the year, that of the full production and deployment of the New Bus for London. We found that the project was being effectively managed, although at the time of our fieldwork there were risks associated with the supply of buses that had not been properly captured and documented with full mitigation plans. However, we were pleased to note that by the time our audit report was issued, these concerns had been addressed.
- 3.6 Although we do not have a prominent role of assuring individual projects, we do carry out a number of cross-cutting project management reviews each year, to provide assurance over the environment and context in which projects are delivered. One significant audit in 2013/14 was of the introduction of 'Pathway', the new pan-TfL single project management framework. We also worked with management to develop an assurance map for project management. An audit of Project Assurance had been planned for the year but this was cancelled to avoid duplication of an IIPAG review.
- 3.7 We found the development and roll out of Pathway to have had some difficulties but management had largely overcome these, and use of Pathway had generally been well-received by the business. In our view, the introduction of this single project management framework is a significant step forward in ensuring that all of TfL's projects are managed effectively.
- 3.8 The project management assurance map showed that project management risks are mostly well-covered by sources of assurance. There were one or two weaker aspects highlighted, though, and these have formed a basis for our audit planning for 2014/15.
- 3.9 We completed consultancy reviews of performance management in Cycle Hire, and Taxi & Private Hire, the last two in our suite of four such reviews of performance management regimes within Surface Transport that had

been requested by the Chief Operating Officer. We are now in discussion with Surface Transport about some other consultancy-style work on their future plans for further organisational changes and process improvements in 2014/15.

- 3.10 One significant piece of work during the year was entitled 'Responding to growth in the Surface Transport Business Plan'. This focused on Surface Transport's planning for its resourcing needs in light of the significantly increased volume of project delivery in coming years. We found that there was a general recognition that more staff with specialist skills, knowledge and experience would be needed but that a more detailed analysis of resource requirements was required to take this forward. This analysis had been delayed, in part, as a result of the significant organisational change in Surface Transport during 2013/14, and the issue is now a key area of management focus.
- 3.11 We worked with the Future Ticketing Project (FTP) team on a real time basis to review the effectiveness of processes and controls being developed and implemented to enable the delivery of the contactless ticketing solution. We found the approach to the project to be thorough and pragmatic, and were satisfied that the minor opportunities for improvement we raised during the audit were properly considered and addressed. We will be auditing the implementation of FTP Phase 2 in 2014/15.

4 IM Governance

- 4.1 There have been no significant changes in the IM leadership team during the course of the year. Notable changes to the IM organisational structure have occurred with the merging of the Tube Lines IT Services into IM and the creation and appointment of a Chief Information Security Officer (CISO).
- 4.2 The CISO will have an important and high profile role to play as TfL looks to mitigate the risks to the business associated with cyber-security. The CISO has already developed an Information Security Controls Framework and conducted a gap analysis, the results of which have been shared with the Information Management Steering Group and the Value Group. We will be working with the CISO during 2014/15 as she takes forward a programme of work to address the issues identified.
- 4.3 We have continued to take part in steering committees, programme board meetings and participate in project meetings. This affords the opportunity to provide challenge, understand the implications of organisational changes and observe governance processes in action. In addition we have undertaken more real time audit work, providing assurance that the developing processes are properly managed, the right people are engaged and that good practice has been used.

- 4.4 In 2013/14, we issued 10 interim audit reports and 12 memoranda related to different aspects of IM governance. Of the reports, one was concluded as 'poorly controlled', eight as 'requires improvement' and one was 'adequately controlled'. This is roughly in line with the ratings from the 2012/13 reports indicating that the overall IM control environment remains stable.
- 4.5 The audit report rated as 'poorly controlled' was in respect of the 'Management and Control of Firewalls'. This report identified a number of significant control weaknesses related to aspects of the governance of TfL's firewalls, including roles and responsibilities, policies and guidance, performance monitoring, and disaster recovery plans. Management are taking forward a comprehensive action plan to address the issues identified.
- 4.6 Out of the reports concluded as 'requires improvement' the following were among the more significant:
- (a) The audit of the security and resilience of the Urban Traffic Control System found that controls were generally strong, with access to the system appropriately restricted and effective back-up and disaster recovery processes in place. However, two significant issues were identified, both related to controls over developer access to the live system. A follow up review has now been carried out, which confirmed that these issues have been addressed;
 - (b) Our audit of the Review of Controls over Remote Access outlined significant issues related to the leavers' process and security of the Webmail service. Management actions are being taken forward to address these, and other issues identified; and
 - (c) Our review of the Operation and Effectiveness of the IM Governance Model noted that at the time of our review all but one of the IM boards and governance groups were behind schedule with delivery of their expected outcomes, including continual improvements within their respective remits.
- 4.7 During the year we have been providing real time assurance over a number of the major IM programmes, including Run Better, End User Computing (EUC) and Transforming IM, and have issued memorandums recommending improvements to the governance of the programmes. Key themes emerging from our work include the need for improved stakeholder management, and better change control over amendments to programme scope, milestones and deliverables. Our work on these programmes will continue in 2014/15.

5 Health, Safety, Environment and Technical (HSE&T)

- 5.1 The integration of the London Underground (LU) and Tubelines HSE&T audit teams into the TfL Internal Audit (IA) team has been a success and work continues to align the processes used by the HSE&T team, with those used by IA. The benefits of the merger have included more robust audit processes and governance regarding the planning, implementing and reporting of HSE&T audit activity.
- 5.2 The HSE&T team were audited as part of the PAS55 Asset Performance audit of LU in February 2014. The audit noted that the merger of the HSE&T audit team with IA had led to more robust processes for the development of the audit programme particularly the levels of stakeholder engagement and the alignment with the TfL strategic risks. The audit identified two areas for improvement in relation to escalation of overdue actions, and providing an overall assessment of the performance of the asset management system.
- 5.3 As part of the 2013/14 HSE&T audit schedule 97 audit reports were issued. The risk areas covered by these audits are detailed below, together with a summary of the work carried out.

Delivery of New Assets - 13 Audits

- 5.4 Twelve of the audits were undertaken in LU, covering Rolling Stock, Signals, Civils, Escalators and a Station Project (Bank), together with process audits on engineering competence, engineering risk management and requirements management in the Sub-Surface Upgrade Project. Overall, these audits found that TfL Pathway (and the LU Project Management Framework) provides adequate control. Areas of improvement identified relate to compliance with TfL Pathway and clarity and completeness of project process documentation.
- 5.5 An audit was also undertaken in London Overground on the Capacity Improvement Project (LOCIP) which concluded that risks are adequately controlled.

Maintenance of Assets - 31 Audits

- 5.6 These audits focussed on LU critical assets including signalling, rolling stock, track, civils, lifts and escalators, electrics, power and fire assets, and covered maintenance planning, compliance with maintenance regimes and competence. Overall, no areas of poor control were found with specific and localised areas for improvement identified only. LU was recently re-certified to the PAS 55 Asset Management Standard by external auditors.

Workforce and Operational Safety - 26 audits

- 5.7 In LU, audits were undertaken of a number of operational business units covering stations, trains and service control. Compliance to TfL systems and rules remains consistently good and no significant areas of poor control were identified. System audits of the implementation of rule changes and familiarisation with local track environments identified that improvement is required and management actions were agreed and are being taken forward.
- 5.8 A number of LU asset maintenance areas were audited to provide assurance that health and safety risks to employees are controlled. The findings were consistent in that whilst risks are generally adequately controlled it was found that processes for risk assessment and monitoring need strengthening. These are both subject to improvement programmes. The audit of Transplant (former Tube Lines) found improved control compared to previous audits. The audit of Power (formerly Powerlink) found systems are working well.
- 5.9 Three audits were undertaken of specific processes in LU projects. These were the quality of safe systems of work, incident investigations and the supply of pre-construction information. These audits found that the processes were compliant with legislative requirements, and that risks are adequately controlled with minor areas for improvement identified.
- 5.10 One audit was undertaken in Surface Transport on incident investigation which found that, while all incidents are investigated, there is the opportunity for improved consistency of process which would provide benefits in data collection and analysis.
- 5.11 One audit was undertaken in DLR on the handover of assets from projects to operational use. This found risks were adequately controlled.

Supplier Assurance – 27 Audits

- 5.12 These audits provide assurance over suppliers at different contract stages. Significant pieces of work include the following:
- 5.13 Three audits were undertaken of LU Principal Contractors in relation to their processes for obtaining assurance that their freight hauliers comply with TfL requirements designed to mitigate the risks to cyclists. These found most requirements were being assured with some strengthening required regarding driver training.
- 5.14 An audit of Serco provision of cycle hire in Surface Transport focussed on identifying process improvements to enable a more efficient and effective service. This made a number of recommendations and was well received by TfL and Serco.

- 5.15 Two audits were undertaken of Bombardier in relation to maintenance of trams. These focussed on management of stores and maintenance planning. The audits identified that Bombardier has a mature corporate system that needs supporting through improved local processes to ensure efficient and effective service provision.

6 Security

- 6.1 The work carried out under this heading is a mixture of security audits, real time assurance, and consultancy work to support the business.
- 6.2 One audit under this heading was concluded as poorly controlled. This was the audit of security at the London Transport Museum, where we found issues with the CCTV and Intruder Detection systems. We carried out a follow up review, which confirmed that all agreed management actions had been completed.
- 6.3 We also carried out security audits of Emirates AirLine (EAL) and of London River Services (LRS) Piers. In both cases the conclusion was 'requires improvement' and management actions were agreed to address the issues identified. We have carried out a follow up review in respect of EAL and confirmed that all actions have been addressed. The audit is closed. A follow up review in respect of LRS will be carried out during 2014/15.
- 6.4 We have provided real time assurance over the decommissioning and secure disposal of high risk/value file servers, including advising on standards for how such high risk data and associated equipment should be disposed of in the future.
- 6.5 During the year we have continued to work with Group Treasury to support TfL's activities aimed at obtaining Payment Card Industry Data Security Standard (PCI DSS) certification. Our accredited PCI DSS Internal Security Assessor has been able to identify areas of concern, and provide assurance to the external Quality Standards Assessor (QSA) that TfL is taking steps to enhance PCI DSS controls throughout the business. In doing so we have reduced the amount of time and cost the QSA would have needed to spend in this area.
- 6.6 We have worked in partnership with the business on reviews of the security of LU SCADA (Supervisory Control and Data Acquisition) systems and their resilience against external cyber attacks, applying the Centre for Protection of National Infrastructure (CPNI) SCADA risk assessment tool. Where issues were identified these were promptly addressed.
- 6.7 Other work carried out included a review of criminal records declarations for LU contractors working on the network and a review of physical security of sensitive data stored in Enforcement and on-street Operations (EoS).

7 Governance and Risk Management

- 7.1 During the year we have carried out a number of audits covering aspects of TfL's overall corporate governance arrangements.
- 7.2 We carried out a review to provide assurance over TfL's continuing compliance with the Bribery Act and to follow-up the actions from a previous review. The audit focused on the key risk areas and found that TfL has adequate arrangements in place as required by the Act and all outstanding actions from the previous audit have either been completed or there are plans in place to ensure they will be completed in the near future.
- 7.3 We carried out a short review of TfL's compliance with relevant aspects of the UK Corporate Governance Code. There were no issues arising.
- 7.4 We also reviewed the risk management process in operation in Surface Transport following a similar review in Rail and Underground the previous year. There were no significant issues identified and the audit was concluded as adequately controlled.
- 7.5 An audit of the administration of subsidiaries, in progress at the year end and completed since, was also concluded as adequately controlled.

8 Core Financial Processes

- 8.1 As usual, our programme of audit work included a number of reviews of core financial control areas. This included an audit of controls over fixed assets. We concluded that this area was adequately controlled.
- 8.2 An audit was conducted to provide assurance over the effectiveness of procure-to-pay process controls. This audit identified generally strong controls and a number of areas of good practice, but also noted two significant issues: there were a large number of duplicate vendor records for individual suppliers on TfL's SAP system making it difficult to select a vendor record to purchase from; and some SAP users had access to transactions that they did not require. We concluded that controls over the procure-to-pay process required improvement, and management actions have been agreed to address the issues identified.
- 8.3 We carried out a piece of work to provide assurance that there is effective control over the revised bank reconciliations process. The monitoring and controls in place over bank reconciliations were deemed to be generally robust and effective, although some minor areas for improvement were noted.
- 8.4 An audit of the controls over Project Accounting in Rail and Underground (R&U) identified a number of issues including unclear roles and responsibilities, and weaknesses in the documentation of policies and procedures. We concluded that project accounting in R&U required

improvement. We have subsequently carried out a follow-up review, which found that all of the issues raised have been satisfactorily addressed and the audit is now closed.

- 8.5 An audit was undertaken to provide assurance on the adequacy and effectiveness of internal controls in place within the five main regional Dial a Ride depots, focussing on a small number of key activities. The processes were found to be adequately controlled.
- 8.6 Several of the audit reports issued during the year related to controls over various revenue streams. Two of these reports were concluded as 'poorly controlled'. The audit of EAL Revenue Collection identified a number of significant issues in relation to the collection and reporting of revenue. Management actions were agreed and we carried out a follow-up review later in the year, which confirmed that the issues had all been addressed and the audit was closed. The audit of Estates Management found scope for considerable improvement in TfL's management of its commercially let property estate. The follow up review confirmed that all agreed management actions had been completed with the exception of two non-critical ones that are dependent on development of the Property website.
- 8.7 Another audit reviewed the adequacy and effectiveness of controls over the completeness and accuracy of fares revenue. A number of areas of best practice were identified, but we also noted one significant issue concerning the 30 revenue control accounts. While the majority were effectively reconciled, some weaknesses were noted including unclear responsibilities and the review and escalation process. We concluded that the controls required improvement. Management action has been taken to address the issues noted.
- 8.8 We carried out a review of the controls over Section 106 of the Town and Country Planning Act 1990 recovery process. The audit identified two significant issues in relation to the monitoring and collection of S106 monies due from the London boroughs. We concluded that the control environment required improvement. We have subsequently carried out a follow up review and confirmed that all agreed management actions have been satisfactorily addressed.
- 8.9 During 2013/14 we performed a series of audits of the effectiveness of revenue protection activities in LU, London Tramlink, DLR, London Overground and Surface Transport. At the end of each audit, a report including issues identified was produced. Action plans were agreed with each of the areas responsible to address the issues, and these have been or are being implemented. Since the year end we have also issued a memorandum highlighting some common themes identified by the audits, with the aim of sharing good practice or other helpful information.
- 8.10 Three further audits on Cycle Hire financial processes, controls over mobile devices, and management accounts were in progress at the year end.

9 Other – Human Resources and Related Areas

- 9.1 One audit report under this heading carried a poorly controlled conclusion. This was the audit of HR Document Management, which identified a number of weaknesses in controls over employee records, exacerbated by a lack of documented procedures and guidelines. HR have implemented a substantial programme of work aimed at addressing the issues raised by the audit, and our follow up review is currently in progress.
- 9.2 We reviewed the effectiveness of the controls over the Make a Difference staff awards process. We found a number of areas of good practice and concluded that the control arrangements were adequately controlled.
- 9.3 We carried out a review of controls over the use of the Engineering and Project Management Framework (EPMF) for procuring project management consultancy services. The audit identified a number of issues regarding use of single sourcing; failure to always take advantage of available discounts; and timesheet approval. The audit conclusion was 'requires improvement'. We carried out a follow up review and confirmed that the agreed management actions had been implemented, but plan to carry out further work in this area during 2014/15 to ensure that the actions are properly embedded.
- 9.4 At the request of management we reviewed a newly implemented system and process for paying Contact Centre Operations temporary agency workers. We found that the risk of erroneous payments had been substantially reduced, but also highlighted a number of areas where the process could be tightened further. Management have agreed a series of actions to address our findings and we will monitor these to ensure they are implemented.
- 9.5 Audits of staff travel in the bus operating companies and Viewpoint were in progress at the year end. Draft reports have been issued to management for review.

10 Crossrail

- 10.1 We issued 12 internal audit reports and four memorandums in respect of Crossrail during the year. Of the audit reports, none were concluded as 'poorly controlled', four were concluded as 'requires improvement', four were 'adequately controlled' and four were 'well controlled'. The results of work in Crossrail are also reported to the Crossrail Audit Committee.
- 10.2 The internal audits concluded as 'requires improvement' were as follows. In all cases we have subsequently carried out a follow up review and confirmed that all agreed actions have been addressed.
- (a) Following a 'poorly controlled' audit report issued during 2012/13 on controls over the validation of invoices received from Crossrail's

delivery partners prior to payment, a further audit was conducted to ensure that the new controls had been embedded effectively. This audit found that significant improvements had been made, to the process. However, one significant issue was identified in relation to invoices not being approved in accordance with the agreed procedures;

- (b) The audit of the management and controls of the Tunnelling and Underground Construction Academy (TUCA) found two significant issues in relation to the setting and reporting of KPIs; and the role of the National Construction College in developing and marketing TUCA services;
- (c) The audit of the arrangements for the management of Six Sigma (quality improvement methodology) at Crossrail found that cost efficiencies of at least £11.5m and cost avoidances of at least £3m were evidenced for Six Sigma process improvement projects (PIPs) completed in 2013. However, some of the reported savings were not clearly supported by documented evidence; and
- (d) We carried out an audit of SAP user access and data management. One significant issue was identified regarding the process assigning access to SAP users, which had led to a number of users having access to transactions they did not require for the purposes of their job.

10.3 In addition, the Crossrail compliance and contractor audit function, whose work is managed by the Senior Audit Manager – Crossrail has carried out a further 16 technical, safety, quality and environmental audits of compliance with aspects of the Crossrail management system, and over 120, typically short, audits of contractors focussed on specific control areas. In all cases, prompt action has been taken to address the issues raised, with 97 per cent of actions being closed on time, and all others being closed within 30 days of the due date.

11 London Transport Museum (LTM)

11.1 We carried out a programme of audits at LTM, the results of which are also reported to the Museum's Audit Committee. The audit of LTM Security is discussed in 6.2 above.

11.2 We carried out a follow up review of our 2012/13 Stock Control audit but were unable to close the audit as a number of the agreed management actions had not been addressed. The LTM Audit Committee focused its attention on this issue, including holding an additional meeting specifically on Stock to ensure that the actions were being addressed. We carried out a second follow up review towards the end of the year, and found that the actions have now all been addressed, and the audit has been closed.

- 11.3 We reviewed the efficiency and effectiveness of the Safety and Citizenship Programme and schools activities that the LTM manages for TfL. This included reviewing controls over spend and benefits realisation. The audit identified a number of areas of good practice, but also raised two significant issues in relation to the process for setting service level agreements with stakeholders; and availability of volunteer Transport Youth Engagement Officers. The audit was concluded as 'requires improvement' and management actions have been agreed to address the issues found.
- 11.4 We also carried out an audit of the efficiency and effectiveness of key financial processes and controls operated by the LTM finance team. The report was concluded as adequately controlled.

Internal Audit Strategy 2013 - Status update

	Strategic Deliverable	Status
Our Customers		
1	Raise awareness with stakeholders around the business of the support that Internal Audit is able to provide through consultancy type assignments.	<p>In progress</p> <p>With a view to: a) assessing the potential demand from the business for this type of work, b) establishing a process for 'commissioning' such work, and c) understanding how we would need to exploit and develop our capabilities, we are working with TfL Commercial in their development of a 'Consultancy' Category. The aim is for Internal Audit to become a preferred supplier for certain types of consultancy assignments.</p>
2	Improve the quality of our progress reporting on delivery of the Integrated Assurance Plan to ensure this provides useful focused information to senior management.	<p>In progress</p> <p>We have provided Quarterly Assurance Progress Reports to the Operating Boards during the year and are currently working with Rail and Underground to identify how we can better link the assurance reporting into the risk management process.</p>
3	Develop our working relationship with IIPAG, looking for opportunities for joint working so as to further streamline assurance processes.	<p>Under development</p> <p>We will work with the PMO to get greater visibility of IIPAG's forward workplan, with the aim of identifying upcoming work where there is mutual interest or potential overlap. Where such areas are identified we will liaise with IIPAG to explore opportunities for joint working.</p>

	Strategic Deliverable	Status
4	Take on an oversight role with regard to the 'audit' activity embedded within Surface Transport and London Rail to ensure it is carried out to appropriate standards and that findings are reported appropriately, so as to further integrate the provision of assurance across TfL.	<p>In progress</p> <p>We have established links with the various audit providers around the business, and their work was included in the Integrated Assurance Plan 2014/15 for the first time. We plan to start including the work of these teams in quarterly reporting to the operating businesses and the Audit and Assurance Committee during 2014/15.</p> <p>The work on codifying assurance documentation (see item 12 below) will provide an opportunity to assess the audit processes followed by these teams and ensure they are in line with the requirements of the TfL Integrated Assurance Framework.</p>
Our People		
5	Deliver a programme of change aimed at addressing the issues arising out of the Viewpoint survey, particularly around communication and consistency of management.	<p>In progress</p> <p>We formed an internal Communications Working Group to review communications within the department and have taken forward a programme of actions to address the group's findings. We will obtain feedback from staff during 2014/15 on whether they believe communication has improved.</p>
6	Identify opportunities for secondments both into and out of the department, with the aim of broadening the experience of our own staff and refreshing the team's skill sets.	<p>In progress</p> <p>There were two inward and two outward secondments during the course of 2013/14, with two further inward secondments scheduled for 2014/15. However, to date this activity has been relatively ad hoc. We aim to identify areas of the business with which we can develop an ongoing programme of inward and outward secondments.</p>

	Strategic Deliverable	Status
7	Draw on expertise from within the business to provide support in specialist areas where the skills/ knowledge are not available 'in house'.	<p>Under development</p> <p>This has happened infrequently to date and on an ad hoc basis. We will review the forward audit plan to identify any upcoming audits where would be potential benefit in drawing on in house expert resource and where that resource might come from. We will then make contact with the expert resource to seek to schedule their involvement.</p>
8	Develop a competency matrix for staff, having regard to the different skill sets required for consultancy assignments, and take action to address identified gaps.	<p>In progress</p> <p>Work on the competency matrix is in progress and we are aiming to have completed it by the end of Quarter 1.</p>
9	Where appropriate implement a more structured approach to training and development to ensure greater consistency of skills and knowledge.	<p>Under development</p> <p>This will be taken forward once the competency matrix has been completed.</p>
Our Delivery		
10	Develop an enhanced performance management regime with improved visibility of the effectiveness of our delivery. Use this information to drive improvement in the timeliness of completion of audits and investigations.	<p>In progress</p> <p>An Internal Audit Performance Dashboard, incorporating a range of performance metrics has been developed and piloted during 2013/14 and work to refine it and improve the quality of data is ongoing. The dashboard is reviewed each period at IA Leadership Team meetings to ensure a continued focus on performance.</p> <p>Relevant metrics will be incorporated during 2014/15 into regular reporting to the Audit and Assurance Committee whose views will be sought on the usefulness of the metrics in assisting understanding of Internal Audit performance.</p>

	Strategic Deliverable	Status
11	Improve our use of technology within the audit process, through development of AutoAudit functionality, including Issue Track, and enhanced use of IDEA.	<p>In progress</p> <p>Implementation of Issue Track functionality for our AutoAudit software is nearing completion. This will significantly improve our real time visibility of the status of audit actions.</p>
12	Incorporate Internal Audit methodologies into the TfL Management System.	<p>In progress</p> <p>We have begun working with the team who are implementing the TfL Management System on codification of the various governance documents relating to assurance. We plan to use this as an opportunity to capture a clear picture of the methodologies used by other assurance providers within the business. This should assist with delivery of item 4 above.</p>
Value for Money		
13	Focus specific audit topics on value for money (VFM) and cost consciousness to help the business implement new initiatives to reduce cost.	<p>In progress</p> <p>There are already a number of audits in our plan for 2014/15 that are focused on VFM, and we seek to include VFM considerations, where applicable, in all of our audits.</p> <p>We are developing some in house guidance for staff on VFM auditing.</p> <p>There may also be a need for some specific training for staff, which we will take forward as part of Item 9 above.</p>

	Strategic Deliverable	Status
14	Identify best practice through audit activity, prioritise the most cost efficient options, and then promulgate these across the business.	<p>Under development</p> <p>Whilst we do seek to promulgate good practice within the business, most recently through our suite of audits on revenue protection, this activity is relatively ad hoc. We aim to put in place a simple process to ensure that examples of good practice are captured for discussion by the IA Leadership Team, and then promulgated as appropriate.</p>
15	Improve detection and prevention of fraud through intelligence led counter fraud activity.	<p>In progress</p> <p>An Anti-Fraud and Corruption Strategy is in place, and we are in the process of developing a more detailed Fraud Prevention Plan to provide better structure and measurable targets for the counter fraud activity that is already occurring. We are working with Internal Communications on a regular programme of fraud messages to be issued to the organisation throughout the year.</p>

Status of actions arising from KPMG Effectiveness review 2012

	Recommendation	Status
1	<p>Assurance Mapping</p> <p>The current audit plan is set out in the integrated assurance plan which amalgamates various source of assurance but does not clearly demonstrate the synergies and potential efficiencies to be gained from integrating assurance. Work is currently underway to map controls to risks, starting with HR and IM, with the aim of building an integrated assurance plan around this.</p> <p><i>We recommend that this process continues to be rolled out to all functions to allow an organisational map of risks, controls and assurances to be created, around which an integrated assurance plan can be constructed.</i></p>	<p>In Progress</p> <p>The project to develop assurance maps for all major activities in TfL, led by the Assurance Delivery Group (ADG), is ongoing. The work is being facilitated by Internal Audit in liaison with representatives from the business. Assurance maps for HR, IM and project assurance have been completed, and the maps for key financial processes are being developed. Further assurance maps will be developed during 2014/15.</p>
2	<p>Integrated assurance reporting</p> <p>Reporting of progress against the integrated assurance plan is a work in progress. Currently the Director of IA reports to the Audit and Assurance Committee quarterly summarising internal audit activity and, separately, provides commentary on the activity of other assurance providers. There is currently no mechanism to summarise concisely and in a consistent format the assurances from work performed in the last quarter or to explicitly link those assurances back to risks being mitigated by the processes and controls subject to review.</p> <p><i>As integrated assurance develops further, the internal audit function should determine how it will report against the integrated plan and the extent to which outputs from other assurance functions will be sense checked and summarised by the Director of Internal Audit before inclusion in the report (and use in the annual internal audit opinion).</i></p>	<p>In Progress</p> <p>Regular reporting of assurance activity to the Surface Transport Board and the Rail and Underground Board, linked to strategic risks has been in place throughout 2013/14.</p> <p>There is now full reporting of HSE and Technical audit work to the Audit and Assurance Committee and this will be developed further with the introduction in 2014/15 of audit conclusions, the same as are used for Interim Audit Reports.</p> <p>Ongoing improvement to reporting on delivery of the Integrated Assurance Plan is incorporated into the Internal Audit Strategy.</p>

	Recommendation	Status
3	<p>ADG work programme Post-Project Horizon, the organisation and its assurance arrangements continue to evolve. The forthcoming transition of the LU HSE assurance function to the TfL IA team, the development of the TfL management system and associated in-built self-assurance, and the development of strategic risk management mean that the internal audit and assurance functions will need to continue to adapt to provide the most appropriate assurance offer to the business.</p> <p><i>The Assurance Delivery Group (ADG) has made significant steps in moving forward the integrated assurance agenda, but now needs a formalised work programme to set out clearly its next steps. This should include actions and milestones to achieve these.</i></p>	<p>Completed.</p> <p>A paper setting out the achievements of the ADG to date, together with a forward programme of work, was presented to the Audit and Assurance Committee in 2013.</p>
4	<p>Impact of recommendations A number of interviewees expressed concern around the ability of IA to add real value by getting to the root of the problem and raising useful recommendations. The perception of several stakeholders is that issues are not always clear in terms of their strategic impact on the organisation.</p> <p><i>Recommendations included in reports should clearly demonstrate the impact of non-implementation on the business and therefore the value that implementation will add.</i></p>	<p>Completed</p> <p>Internal Audit reports seek to demonstrate the impact of non-implementation on the business in the 'risk exposure' sections of the report.</p> <p>In raising issues we seek to identify the root causes of those issues rather than focusing on symptoms.</p>

	Recommendation	Status
5	<p>Frequency of meetings Two stakeholders interviewed commented that meetings with internal audit were too frequent, and that agenda content was therefore not always sufficient.</p> <p><i>Internal audit should aim to build its schedule of stakeholder meetings around the integrated assurance plan and emerging risks to ensure there is a clear need and focus for each meeting held.</i></p>	<p>Completed</p> <p>Internal Audit has established a stakeholder management process, which monitors contacts with managers around the business, with the aim of ensuring that stakeholder meetings are held with an appropriate level of frequency and that multiple meetings with individual stakeholders are avoided.</p>
6	<p>Defining competencies IA have not formally defined the overall mix of competencies required within the department. This creates the risk that there is no clear basis for recruitment decisions or responding to changes in demand from the business.</p> <p><i>A matrix of required competencies should be developed based on the current needs of the business and IA's mission and role. It should define the optimum skill mix and be sufficiently flexible to respond to changes in demand. Such a document is particularly important given the structure of the TfL IA function, as specialisation of staff reduces the flexibility of resources to fill gaps.</i></p>	<p>In progress</p> <p>A competencies matrix for the department is being developed. This will set out the qualifications and skill sets that the department requires, and highlight any gaps. This will then be used to inform any future recruitment programmes or secondments.</p> <p>Development of the competencies matrix is also incorporated into the Internal Audit Strategy.</p>
7	<p>Rotation programme There has been low staff turnover in IA recently, which can reduce opportunities for innovation and challenge to existing staff practices.</p> <p><i>IA could consider expanding the existing secondment programme to increase exposure of staff in the wider organisation to internal audit, and vice versa. There may also be possibilities for secondments within the GLA family.</i></p>	<p>In progress</p> <p>There have been two inward and two outward secondments during the course of 2013/14, with two further inward secondments scheduled for 2014/15.</p> <p>Efforts to identify further opportunities for secondments are ongoing, and this is incorporated into the Internal Audit Strategy.</p>

	Recommendation	Status
8	<p>Medium term strategy</p> <p>Internal audit does not currently prepare a medium term strategy, and has only an activity plan covering the year ahead. Though it would require review and refresh at least annually as part of the planning cycle, such a strategy would enable IA and the Audit and Assurance Committee to understand how assurance is proposed to be gained over the longer term, and allow review and challenge to the coverage and frequency of reviews on a medium term programme. For example, it is extremely difficult to judge the prioritisation and time criticality of reviews in the absence of any information on frequency of review.</p> <p><i>The annual integrated assurance plan should be set in the context of a medium term strategy which incorporates inputs from all assurance functions to prevent duplication of effort. The strategy would make it clear which reviews required completing on a cyclical basis and enable review and challenge to be made to gaps, coverage and prioritisation in the context of a 3 – 5 year programme of activity. The plan should be explicitly linked to risks.</i></p>	<p>Completed.</p> <p>The Integrated Assurance Plans for 2013/14 and 2014/15 Audit and Assurance Committee meetings includes a section showing plans for cyclical areas of the plan with a three year outlook.</p>
9	<p>Risk-based procedures</p> <p>In one instance from our file review (review of supplier relationship management), there was no discussion of risk in the audit program, and it was therefore unclear how the set of procedures had been developed to respond to the organisation's risks.</p> <p><i>Risks identified in the scoping document (see recommendation above) should map directly through to the audit programme, with designed procedures in turn being mapped to these risks. This should result in more focused testing and a clearer link between perceived risk, procedures performed and days allocated.</i></p>	<p>Completed.</p> <p>This is already an established part of our process as set out in our Audit Manual. The requirement has been reemphasised to staff, and this was not an issue in our recent internal quality review.</p>

	Recommendation	Status
10	<p>Key Performance Indicators (KPIs) IA have KPIs in place for timeliness of reporting and customer feedback. No others KPIs are currently reported, although we note that a framework for evaluating IA's performance is currently being developed. This is intended for use internally rather than the wider organisation.</p> <p><i>We recommend that the Audit and Assurance Committee provide input to this evaluation process, and monitor performance against agreed elements of the framework going forward. The evaluation criteria should be based upon IA's mission and objectives, and be specific and measurable.</i></p>	<p>In progress</p> <p>An Internal Audit Performance Dashboard, incorporating a range of performance metrics has been developed and piloted during 2013/14.</p> <p>Where relevant, these metrics will be incorporated into regular reporting to the Audit and Assurance Committee during 2014/15 whose views will be sought on the usefulness of the metrics in assisting understanding of Internal Audit performance</p> <p>Ongoing development of performance management is incorporated into the Internal Audit Strategy.</p>
11	<p>Report ratings It is unclear for the audience how overall assurance ratings for interim reports are arrived at in the absence of RAG rated recommendations. At the time of conducting our review, recommendations were not RAG rated to give the reader a detailed assessment of perceived significance. We note however that IA now intends to grade its recommendations as Priority 1, 2 or 3.</p> <p><i>Once clear priority ratings have been implemented, and acknowledging the importance of auditor judgement, the convention for converting recommendations into an overall assurance rating for a review should be communicated in the annual plan.</i></p>	<p>Completed.</p> <p>Individual audit issues raised in reports are now given a priority rating of 1, 2, or 3, and these priority ratings have been defined and are set out in the audit reports. We have also documented how these individual ratings translate into the overall rating for the audit.</p>

	Recommendation	Status
12	<p>Positive assurance</p> <p>We note that IA reports include areas of good practice, and state the scope of reviews in broad terms and that areas not specifically mentioned in the report have been found to be operating effectively. However, reports do not state which risks have been reviewed and which procedures have been performed. Internal audit has a role in reporting positive assurance as well as exceptions. Because reports are generally written on an exceptions basis, the user is unable to determine which controls have been found to be operating effectively.</p> <p><i>We recommend that IA consider ways in which reports could be enhanced to set out more clearly positive assurances over risks that are found to be controlled effectively.</i></p>	<p>Completed</p> <p>Internal Audit reports already set out positive assurances, both by explicitly highlighting areas of good practice that we have found and by stating that scope areas not mentioned were found to be working effectively.</p> <p>Audit reports with Well Controlled or Adequately Controlled conclusions now set out our findings for each scope area.</p>
13	<p>Anticipated assurance</p> <p>Reports or scoping documents do not state what management expected the assurance rating to be prior to the audit work commencing. Obtaining this anticipated assurance may encourage more openness in requesting IA to perform work into areas that are known not be operating effectively and provides a sense check for the Audit and Assurance Committee on management's view of control environments.</p> <p><i>We recommend that an 'anticipated assurance' rating is obtained from relevant directors or senior officers prior to each review.</i></p>	<p>Completed</p> <p>Anticipated assurance has been piloted on a sample of audits. We have concluded that it does not have any significant impact on the outcome of the audits and we therefore propose to make its use an optional, but not mandatory, part of our audit process.</p>

Appendix 4

**INTERNAL AUDIT CUSTOMER FEEDBACK FORM
SUMMARY OF RESPONSES FOR 2013/2014**

Understanding our customers' needs and expectations and ensuring we are meeting them is an important part of the continuous improvement we strive for in Internal Audit. We have recently conducted an assignment in your area and would be grateful if you could complete this customer feedback questionnaire, **and return it to us by email**. This will help us identify ways in which we can improve our service to the business.

Please select the rating for our performance ranging from 1 (very poor) to 5 (very good) for the areas below. An additional 'Comments' section is provided for you if you wish to make any specific comments on what went well or could be improved, and on your overall opinion of the assignment conduct and usefulness.

Your feedback will be shared with the audit team, and also summarised on a quarterly basis for the Audit Committee. We may contact you to discuss your feedback if we feel that gaining a better understanding of it would be beneficial.

Customer Feedback Forms Sent (Period 1 – 13) = 104 (2012/13 = 82)

Customer Feedback Forms Returned (Period 1 – 13) = 58 (2012/13 = 40)

		No score given	Very poor	Poor	Satisfactory	Good	Very good
ASSIGNMENT ASSESSMENT CRITERIA			1	2	3	4	5
PLANNING AND TIMING							
1)	The assignment timing was agreed with me and there was appropriate consideration of my other commitments as the work progressed	0 (0)	0 (0)	4 (1)	4 (4)	25 (20)	25 (15)
2)	The assignment was completed and the report issued within appropriate timescales	0 (1)	0 (1)	4 (4)	12 (7)	23 (17)	19 (9)
COMMUNICATION							
3)	Communication prior to the assignment was appropriate, including the dates and objectives	0 (0)	0 (0)	1 (1)	11 (7)	26 (18)	20 (14)
4)	Throughout the assignment I was informed of the work's progress and emerging findings	1 (1)	0 (1)	3 (2)	14 (9)	27 (19)	13 (8)
CONDUCT							
5)	The Internal Audit team demonstrated a good understanding of the business area under review and associated risks, or took time to build knowledge and understanding as the work progressed	0 (0)	1 (0)	3 (3)	17 (11)	23 (15)	14 (11)
6)	The Internal Audit team acted in a constructive, professional and positive manner	0 (0)	0 (0)	3 (1)	2 (3)	28 (17)	25 (19)
RELEVANT AND USEFUL ADVICE AND ASSURANCE							
7)	A fair summary of assignment findings was presented in the report	0 (0)	0 (0)	4 (3)	8 (8)	24 (12)	22 (17)
8)	Assignment recommendations were constructive, practical and cost-effective	0 (1)	0 (1)	4 (1)	6 (8)	31 (16)	17 (13)
9)	My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations	1 (0)	0 (1)	4 (3)	8 (7)	25 (12)	20 (17)

Other comments including suggested improvements and areas of good performance:

"If the audit is primarily designed to be 'opinion based', then a logically argued counter-view (that is in compliance with process) must be allowed space. In addition, where evidence is provided to show that one or more aspects of the report are incomplete or convey the incorrect tone, then this should be accepted."

"The audit team should make sure that not only do they review the subject of the audit but also the phase that the project is currently in and how far it has to go. An overarching picture will help ensure the outcome of the audit captures the appropriate points and records as such."

"The Auditor did an excellent job to understand how we operate as a business and the complexity of the system. She is competent, thorough and fair. I also find that the audit team was flexible to accommodate our timescales and priorities The findings are both relevant and constructive."

"I found the Audit process helpful. It allowed me to understand the business better and highlighted risks that can be taken for granted when on site daily. I found working with the Audit team helpful and they answered questions I had and looked to provide helpful solutions to the problems the [area under review] faces. Some of the recommendations may or may not be cost effective but I believe that [we] would be supported by Audit to look at completing recommendations and assist with buy in from TfL. Clearly the audit conclusion is disappointing but I believe with support [we] can be in a better place moving forward."

"Some of the suggested actions were very expensive for the level of risk, however the auditor was open to discussion and revision. He built good relationships with the team which I felt helped achieve the audit's objectives. Just a minor point but when the audit findings were fed back - it would have been helpful to have invited the managers directly accountable for the area as well so that they could hear the findings first hand."

"There seemed to be a significant gap between the expectations of the Audit and (Auditee) teams, as far as what the audit was going to cover. That aside, I thought the audit was conducted in a positive way, and my team seemed to be comfortable with the process as well. The report was fair and the recommendations were as well."

"Good Performance: Overall, the audit was delivered well. The auditor and my team worked together to ensure that interviews and assessment of evidence went smoothly. Area for improvement: Although a draft report was issued to all involved, the findings of the report and recommendations were not discussed face-to-face with the relevant interviewees before the final report was issued."

"The original time scales and effort anticipated was quite a way short of actuals. The auditor would have benefited from a better understanding of IM processes that linked into the processes that were audited. A large amount of time was taken to explain how all this hangs together and there was a lot of repetition. Additional benefit could have been derived by a deeper technical knowledge of what was being audited."