

Date: 8 October 2015

Item: Review of Internal Audit Charter

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to inform the Committee of proposed changes to the Internal Audit Charter.

2 Recommendation

2.1 The Committee is asked to approve the proposed changes to the Charter.

3 Background

3.1 The Public Sector Internal Audit Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and other relevant standard setters in collaboration with the Chartered Institute of Internal Audit, require there to be an Internal Audit Charter which sets out the purpose, authority and responsibility of the Internal Audit function. TfL's Internal Audit Charter was first published in 2003 and was last updated in June 2013.

3.2 The proposed amendments to the Internal Audit Charter are marked as tracked changes on the attached document. The amendments are minor, and primarily reflect changes to external standards and guidance governing internal audit activities, and revised references to section numbers in Standing Orders.

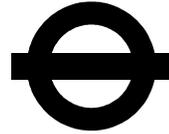
List of appendices to this report:

Appendix 1: Internal Audit Charter (with tracked changes)

List of Background Papers:

None

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Internal Audit Charter

This document sets out the objectives, authority and responsibilities of Transport for London's Internal Audit Department. It was approved by the Audit and Assurance Committee on ~~19 June 2013~~ [October 2015](#).

Vision and Mission

The vision of Internal Audit is World Class assurance and advice for a World Class transport system.

The mission of Internal Audit is:

1. To provide independent assurance and advice to the TfL Board, Audit and Assurance Committee and the Leadership Team on all aspects of corporate governance across the TfL Group.
2. To provide advice and assistance to directors and senior managers in carrying out their internal control responsibilities including matters of risk, fraud, business improvement, policy, procedure and compliance.

The mission is supported by the Chartered Institute of Internal Auditors' definition of Internal Auditing:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Authority

Internal Audit derives its authority primarily from the Accounts and Audit Regulations 2015⁵⁴ which establish a statutory requirement for local authorities to have an internal audit function ['to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'](#). It also derives authority from the Board and Audit and Assurance Committee to whom it has open access.

The Director of Internal Audit reports to the General Counsel and has access, when required, to the Commissioner and the Chairman of the Audit and Assurance Committee. In accordance with Standing Orders Section 6⁶⁸ the Director of Internal Audit is entitled to report directly to the Board or Chair or raise any matter within their professional jurisdiction.

In accordance with Standing Orders, section 1002 (e) the appointment and dismissal of the Director of Internal Audit are reserved to the Board in order to ensure organisational independence.

The Director of Internal Audit presents reports to the Audit and Assurance Committee on audit plans and resources, the results of audit and counter fraud work, and is required to deliver an annual audit opinion, which concludes “on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control on the control environment.”

The Audit and Assurance Committee, on behalf of the Board, reviews the authority, scope of work and resources of Internal Audit on a regular basis to confirm these remain appropriate.

The Chief Finance Officer has specific responsibilities set out in the Local Government Act 1972 and the GLA Act 1999 for the probity of financial systems. He/she will derive assurance on the overall effectiveness of internal control systems from Internal Audit’s programme of work, including the results of fraud investigations, but may, from time to time, look to Internal Audit to perform specific reviews to enable him/her to fulfil his/her responsibilities.

For the purpose of its work, Internal Audit has unrestricted access at any time to all the records, personnel, property and operations of TfL. In the case of the investigation of actual, alleged or suspected criminal wrongdoing this access includes the right to search for and retain any item belonging to TfL, including, but not restricted to, data (including data pertaining to individuals), assets and property, which may be needed as evidence in any consequent criminal, civil or disciplinary action which may be taken.

Internal Audit has responsibility for the safekeeping and confidentiality of all information or other items retained or provided, in particular in respect of individual members of staff.

Responsibilities

Internal Audit has responsibility for providing assurance in respect of corporate governance and risk management across the whole of the TfL Group and including its partnership arrangements. Partnership arrangements, for these purposes, are deemed to include any arrangement, contractual or otherwise, whereby TfL works with a third party to deliver services or products in support of its objectives.

In fulfilling this responsibility Internal Audit will:

- Develop an annual audit plan covering the whole system of internal controls in discussion with senior management and taking into account TfL’s risks, major projects, significant areas of change and specific management concerns. The plan will be confirmed on a quarterly basis to ensure it remains relevant and timely.
- Facilitate and contribute to the development of an integrated assurance plan for TfL, incorporating the annual internal audit plan, in association with other assurance providers.

- Incorporate within the overall audit plan an internal consultancy service to the business, in relation to control related matters, with the objective of assisting management to implement business improvement rather than expressing a formal audit opinion.
- Actively seek to promulgate areas of good practice identified in the course of audit or consultancy work across TfL.
- Provide a professional investigation service to enquire into and report on actual/potential crimes and occurrences of fraud, corruption and related offences.
- Provide a fraud detection capability by utilising forensic data analytics to identify risk areas and, in addition, use this work to direct fraud prevention and awareness activities.
- Ensure adequate and appropriately skilled resources are available to deliver the department's responsibilities. The skill sets of existing staff will be developed where appropriate. Specialist skills may be brought in from outside the department.
- Deliver the audit plan in accordance with the methodologies set out in the Audit Manual which will be continuously reviewed and updated. Internal Audit will operate in accordance with the [Code of Ethics and Public Sector Internal Audit](#) Standards published by ~~the Chartered Institute of Internal Audit and~~ the Chartered Institute of Public Finance and Accountancy (CIPFA) [and other relevant standard setters in collaboration with the Chartered Institute of Internal Audit](#), to ensure the highest quality of professional delivery ~~and in accordance with best practice as promulgated from time to time by the Audit Commission~~.
- Deliver fraud investigations in accordance with the methodologies set out in the Fraud Protocol and the Fraud Manual, and relevant legislation, which will be continuously reviewed and updated.
- Seek feedback at the end of each major assignment to enable continuous quality improvement.
- Maintain a quality assurance and improvement program that covers all aspects of internal audit activity.
- Issue a formal report at the end of each audit assignment after full discussion with the management of the area audited. The report will be issued to relevant members of management and, other than HSE and technical audit reports, copied to the General Counsel, Chief Finance Officer and the external auditors. The results of all reports issued will be summarised for the Audit and Assurance Committee regularly throughout the year in accordance with TfL's disclosure policy.
- Issue a report at the end of each consultancy assignment to relevant members of management setting out findings and recommendations. Consultancy reports will generally have a more restricted distribution than audit reports unless areas of

significant concern arise. The results of consultancy assignments may still be used to contribute to Internal Audit's overall opinion on the control environment.

- Issue a report at the end of each fraud investigation to local management advising them of the outcome of the investigation and, as necessary, advising on the courses of action available in respect of disciplinary, civil or criminal action. Where relevant, an internal control report may also be issued for standard audit report circulation making recommendations as to how to strengthen the control environment.
- Follow up audit findings to ensure weaknesses identified in internal controls have been effectively addressed.
- Maintain a balanced scorecard with key performance indicators (KPIs) for the Internal Audit Department and report against this to the Audit and Assurance Committee regularly throughout the year.
- Liaise with the external auditors on a regular basis to co-ordinate planning and share results of audit work in accordance with the External/Internal Audit Protocol.
- Benchmark with the internal audit and fraud investigation departments of a variety of other organisations – both public and private sector – to ensure the audit approach employed within TfL is “best in class”.
- Maintain a close working relationship and interchange of information with the [Community Safety, Enforcement and Policing Enforcement and On-street Operations](#) Directorate within Surface Transport; law enforcement agencies, including the British Transport Police and the Metropolitan Police; and other relevant agencies, including the Centre for the Protection of National Infrastructure and the National Fraud Authority.
- Prepare an annual report and opinion for presentation to the Audit and Assurance Committee as part of its consideration of the effectiveness of the control environment and to support the Annual Governance Statement which incorporates the Statement of Internal Control.

Management's responsibility

Internal Audit is a review and support activity, which does not relieve management of its responsibility for identifying, evaluating and managing risk. Internal Audit will make suggestions for the improvement of internal control, but it is management's decision and responsibility to implement cost effective and appropriate actions to address the weaknesses identified. Similarly it is management's decision and responsibility to determine whether disciplinary action or criminal or civil proceedings should be initiated following a fraud investigation.