

Date: 18 December 2013

Item 9: Internal Audit Strategy 2013

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to present to the Audit and Assurance Committee the Internal Audit Strategy 2013 (the Strategy).

2 Recommendation

2.1 The Committee is asked to note and comment on the Strategy.

3 Background

3.1 Whilst it is not a requirement, the Chartered Institute of Internal Auditors (IIA) considers it good practice for an Internal Audit function to have a documented strategy setting out how it intends to deliver and develop its service to the business over a three to five year framework.

3.2 The previous Internal Audit Strategy was presented to the Audit Committee in September 2009. Since that time there have been significant changes both to Internal Audit and the environment in which it operates, including, in particular the development of the integrated assurance agenda, the Internal Audit organisational change, and the subsequent transfer into Internal Audit of the HSE and Technical and Tube Lines audit functions.

3.3 The Strategy has been aligned with the four TfL strategic pillars – Customers, People, Delivery and Value for Money – and under each heading sets out our priorities for development of the Internal Audit service. The Strategy will be supported by a more detailed action plan for delivery of these priorities, including milestones and target dates.

3.4 We will report annually to the Audit and Assurance Committee on progress with delivery of the Strategy as part of the Internal Audit Annual Report.

List of appendices to this report:

Appendix 1 – Internal Audit Strategy 2013

List of Background Papers:

None

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1. Introduction

TfL's goal, as set out in 'The Transport for London Story' is:

"To keep London working and growing and make life in London better. We will deliver a transport system that secures London's position as a world-leading city and the engine of the UK economy. Our services will ensure that those who live and work in and visit London can access all the Capital has to offer in terms of jobs, leisure, health and education."

Internal Audit aims to support TfL in achieving its goal through delivery of its mission, which is:

- 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; and
- 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 purpose of this document is to set out how Internal Audit plans to deliver its mission over the next three to five years, by reference to the four key strategic pillars:

- Our customers;
- Our people;
- Our delivery; and
- Value for Money.

2. Background

Internal Audit provides assurance to TfL through delivery of an annual programme of audits and consultancy work across all areas of the business. It also provides a proactive fraud awareness and detection service, and investigates allegations of fraud and corruption, advising management on appropriate disciplinary, civil or criminal proceedings.

A key focus of activity over the past two years has been on development and delivery of a more integrated approach to assurance across TfL. Led by the Assurance Delivery Group (ADG), an Integrated Assurance Framework has been established, which sets out the respective roles of the various assurance providing areas in TfL and defines a set of high level principles that are applicable to all assurance in TfL. An annual Integrated Assurance Plan is now prepared in liaison with other assurance providers within the business, reviewed by the Operating Boards and the Leadership Team, and approved by the Audit and Assurance Committee.

Progress with delivery of the Integrated Assurance Plan is reported quarterly to the Operating Boards and to the Audit and Assurance Committee. The Director of Internal Audit also meets quarterly with each of the Chief Officers to discuss findings from recent audits and upcoming work.

The Director of Internal Audit provides an Annual Report to the Audit and Assurance Committee summarising the outcomes from assurance work carried out during the year and including an overall opinion on the effectiveness of internal control across the TfL Group.

The Director of Internal Audit also reports, separately, to the Crossrail Audit Committee and to the Audit Committees of London Transport Museum and the TfL Pension Fund.

With effect from 1 January 2013 and 4 May 2013 respectively, the TfL HSE and Technical Audit function and the Tube Lines audit functions have transferred into Internal Audit. This brings together the majority of audit activity into one place for the first time. However, there remain some pockets of audit-type activity embedded within the business, particularly within Surface Transport and London Rail.

There has been a similar focus on integrated assurance within Crossrail, and the Crossrail compliance audits and the HSQE Contractor audits are now managed by the Senior Audit Manager – Crossrail.

3. Related Documents

Further information on Internal Audit's overall approach to its work is set out in the following documents:

- Internal Audit Charter – This sets out the objectives, authority and responsibilities of Internal Audit;
- Annual Integrated Assurance Plan – Presented each year to the March meeting of the Audit and Assurance Committee for approval, this sets out the overall programme of assurance work to be carried out by Internal Audit and other assurance providers over the year ahead;
- Internal Audit Annual Report – Presented each year to the June meeting of the Audit and Assurance Committee, this provides a summary of the outcomes of audit and assurance work and other activities of the Internal Audit department over the past year; and
- Anti-Fraud and Corruption Strategy – This sets out TfL's approach, led by the Fraud Team, to the management of fraud and corruption risk across the organisation.

4. Continuous Improvement

Internal Audit seeks to ensure continuous improvement in the effectiveness of its processes, the quality of its services and the efficiency of their delivery, the skills of its staff and its value to its customers.

The following sections of this paper set out, for each of the four Strategic Pillars:

- A 'position statement' setting out what the department is seeking to achieve;
- A summary of key activities already in place through which we deliver the Internal Audit service; and
- Our priorities for further development and enhancement of Internal Audit's service.

A more detailed action plan for delivery of these priorities, including milestones and target dates, will be developed and progress will be reported to the Audit and Assurance Committee annually as part of the Internal Audit Annual Report.

5. Our customers

Position Statement

Internal Audit has two primary customer groups:

- (i) The Board (through the Audit and Assurance Committee), Leadership Team and senior management, to whom we provide assurance over the effectiveness of TfL's governance and control arrangements; and
- (ii) Managers and staff across TfL to whom we provide advice and assistance in carrying out their governance and control responsibilities.

In addition, we have a number of external stakeholders, for example the external auditors, who place reliance on our work.

In carrying out our work we seek to focus on areas of highest risk to the organisation and where we can provide maximum benefit to our customers. We work collaboratively with other assurance providers to ensure that duplication of effort is minimised.

We will continue to:

- Develop an annual Integrated Assurance Plan collaboratively with other assurance providers and in consultation with senior managers across TfL, to ensure the plan is appropriately focused on the needs of the business;
- Keep the plan under review and refine it on an ongoing basis in response to changing or emerging risks;
- Provide, where appropriate, an internal consultancy service to the business in areas related to internal control and governance;
- Seek customer feedback after the completion of each audit and consultancy assignment and take action to address any issues raised concerning our quality of service; and
- Report regularly to the Operating Boards and to the Audit and Assurance Committee on progress with delivery of the Integrated Assurance Plan and on the key issues arising.

We will take action to:

- Raise awareness with stakeholders around the business of the support that Internal Audit is able to provide through consultancy type assignments;
- Improve the quality of our progress reporting on delivery of the Integrated Assurance Plan to ensure this provides useful focused information to senior management;
- Develop our working relationship with IIPAG, looking for opportunities for joint working so as to further streamline assurance processes; and
- 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.

6. Our people

Position Statement

Our staff have skills and experience across a range of disciplines and a wide range of knowledge about the business and the environment in which it operates, internal audit best practice, and fraud risk and procedures. These skills are kept up to date through targeted training and development.

We will continue to:

- Recruit staff from a range of different backgrounds and specialisms to ensure we have the expertise to deal with senior professionals across a wide range of business activity;
- Provide comprehensive induction for all new staff to ensure they are properly trained in audit methodologies and use of electronic tools;
- Provide appropriate training and development to all staff;
- Encourage staff to participate in professional activities, including serving on committees, writing papers/ articles and accepting speaking engagements, where we feel this will add value to our own work or professional development, as well as enhancing our reputation; and
- Offer placements to staff on TfL's finance graduate scheme.

We will take action to:

- Deliver a programme of change aimed at addressing the issues arising out of the Viewpoint survey, particularly around communication and consistency of management;
- 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;
- Draw on expertise from within the business to provide support in specialist areas where the skills/ knowledge are not available 'in house';
- Develop a competency matrix for staff, having regard to the different skill sets required for consultancy assignments, and take action to address identified gaps; and
- Where appropriate implement a more structured approach to training and development to ensure greater consistency of skills and knowledge.

7. Our delivery

Position Statement

Internal Audit is the leading provider of assurance within TfL, with a key role in promoting effective assurance delivery across the organisation. We will strive to apply the highest possible standards of professionalism and integrity at all times in the delivery of our own work. We will carry out our work in accordance with best practice standards, delivering clear, timely and independent assurance to the business.

We will continue to:

- Keep Audit and Fraud manuals under review and update them as required to reflect changes in best practice as defined in the Public Sector Internal Audit Standards and relevant guidance published by other professional bodies;
- Review and continuously improve our processes to ensure they are as streamlined as possible;
- Carry out an annual quality self-assurance review and commission an external effectiveness review every three years; and
- Be robust in drawing conclusions based on our findings and reporting these without fear or favour.

We will take action to:

- 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;
- Improve our use of technology within the audit process, through development of AutoAudit functionality, including Issue Track, and enhanced use of IDEA; and
- Incorporate Internal Audit methodologies into the TfL Management System.

8. Value for Money

Position Statement

We will help TfL to achieve value for money by:

- carrying out our own role as efficiently as possible with minimal duplication of effort with other assurance providers; and
- driving business improvement through our audit, consultancy and fraud prevention work by making recommendations to the business where we see opportunities for carrying out activities more efficiently and minimising losses.

We will continue to:

- Look for ways to deliver assurance more effectively including implementation of Continuous Auditing and championing the expansion of Control Self Assurance;
- Spread fraud awareness through delivery of targeted workshops/ training sessions and regular messages communicated via TfL bulletins; and
- Give consideration, where applicable, in all audits to value for money issues.

We will take action to:

- Focus specific audit topics on value for money and cost consciousness to help the business implement new initiatives to reduce cost;
- Identify best practice through audit activity, prioritise the most cost efficient options, and then promulgate these across the business; and
- Improve detection and prevention of fraud through intelligence led counter fraud activity.