

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: STRATEGIC REVIEW OF INTERNAL AUDIT**

**DATE: 15 JUNE 2010**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this report is to provide the Committee with information concerning the forthcoming strategic review of Internal Audit to be carried out in liaison with the Cost Reduction Team. The Committee is asked to note and comment on this report.

**2 BACKGROUND**

2.1 TfL Internal Audit has been in existence since the formation of TfL in July 2000. Since that time, the department has grown in response to changes in TfL's activities, in particular the transfer in of London Underground, the inception of TfL's Investment Programme and, more recently, the absorption of Metronet and the commencement of the Crossrail project.

2.2 The department's budgeted headcount for 2010/11 is for 56 staff. Its total budget is £4,849,000. This is made up of staff costs of £4,259,000, of which £300,000 is recoverable from Crossrail, and non-staff costs of £890,000. The most significant item included in the non-staff costs budget is £550,000 in respect the co-sourcing contract with Ernst & Young.

2.3 There are a number of reasons why this is an appropriate time to carry out a strategic review of Internal Audit:

- (a) The significant financial pressures faced by TfL in the current economic climate mean that it is important for all areas of the business critically to review their activities with a view to identifying opportunities to make cost-savings and improve their efficiency.
- (b) There is a need to review the interactions between the department's work and that of other assurance providers to ensure that there is no duplication of effort and that potential overlaps are properly managed. This has been a particular concern with regard to audit work around projects, and perceived overlaps with Corporate Gateway Approval Process (CGAP) reviews and, going forward, the work of the Investment Programme Advisory Group (IPAG). The department has already had some successes in Crossrail, where the audit plan for this year was prepared jointly with Crossrail's Quality Assurance Team.
- (c) The co-sourcing contract with Ernst & Young is due for retendering. This needs to be carefully considered in the light of the volume and nature of any support that TfL may require from a co-sourcing partner going forward.

### **3 SCOPE OF REVIEW**

3.1 The department is in the process of discussing and agreeing the scope and timescales for the review with members of TfL's Cost Reduction Team.

3.2 The primary purposes of the review are:

(a) To examine the current activities of Internal Audit in the context of other assurance providers, with the aim of identifying whether the activities taking place are carried out in the most efficient and cost effective way.

(b) To identify options to enhance processes and/ or infrastructure to provide the most effective assurance to the organisation.

3.3 The key areas to be covered by the review include the following:

(a) The mechanisms, approaches and processes applied for assurance on all business activities;

(b) The relationships between Internal Audit and other assurance providers, including IPAG/ the Corporate Gateway Approval Process;

(c) Prioritisation of Internal Audit's work between different business areas and activities;

(d) Appropriateness of the size and structure of the department to meet the organisation's assurance needs; and

(e) Balance of different types of assurance, including use of audit tools, and use of co-sourcing arrangements.

The review will also look for opportunities to benchmark against other organisations.

3.4 The review will seek the input of a wide range of stakeholders from across TfL including the Deputy Chair, the Chair of the Audit Committee, senior officers of TfL, and the external auditors, as well as the Internal Audit senior management team, and the wider membership of the Internal Audit department.

3.5 The review is currently expected to be finalised findings by the end of September 2010.

### **4 RECOMMENDATION**

4.1 The Audit Committee is asked to NOTE and comment on the contents of this report.

### **5 CONTACT**

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