

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

**SUBJECT: REVIEW OF INTERNAL AUDIT: ACTION PLAN**

**DATE: 25 NOVEMBER 2008**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to update the Committee on actions taken as a result of the effectiveness review of Internal Audit. The Committee is requested to note the paper.

**2 BACKGROUND**

2.1 In accordance with our agreed practice, KPMG carried out a review of the effectiveness of the Internal Audit function earlier this year, the results of which were reported to the last Audit Committee meeting. These reviews are undertaken every three years which is more frequently than the five year cycle recommended by the Institute of Internal Auditors.

2.2 Whilst overall commending the work of Internal Audit, KPMG made a number of recommendations to improve governance and process. The attached table includes these recommendations and notes the action that has been taken to date to implement them.

**3 RECOMMENDATION**

3.1 The Audit Committee is asked to NOTE the content of this report.

**4 CONTACT**

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## KPMG Effectiveness review 2008 – Action Plan

	<b>Recommendation</b>	<b>Status</b>
1	<p><b>Scope of work</b></p> <ul style="list-style-type: none"> <li>• TfL has partnerships with London Boroughs. The CIPFA Code of Practice specifically states that where partnerships exist, the Head of IA should agree how assurance will be sought and the access rights.</li> <li>• The Director of IA is awaiting further guidance on partnerships but in the meantime, she meets with respective Heads of IA from the Boroughs to discuss audit approaches and to share knowledge.</li> <li>• However, at the time of drafting this report there has been no formalisation of how assurance will be sought or the access rights to working files.</li> </ul>	<p>TfL's working relationship with Boroughs and oversight of their spend is being reviewed. The Director of Internal Audit is in discussion with Borough Partnerships over any potential conflict this may have with the need for assurance on partnership arrangements.</p> <p>Meetings with Heads of IA continue.</p>
2	<p><b>Internal Audit Strategy</b></p> <ul style="list-style-type: none"> <li>• The last Internal Audit strategy expired in 2007.</li> <li>• The Director of IA is aware that the strategy needs to be updated and is planning to do this when there is a greater understanding of the impact of Crossrail operations over the forthcoming year</li> </ul>	<p>Draft being prepared in conjunction with the balanced scorecard referred to below</p>
3	<p><b>Assurance providers</b></p> <ul style="list-style-type: none"> <li>• The TfL Head of Risk Management is currently developing an assurance map for TfL, which highlights all the assurance providers across TfL, the type of assurance provided and the risks covered. This will clearly highlight gaps in assurance and duplicate assurance so that management.</li> <li>• Once a full list is compiled, the Director of IA is to host a joint Assurance conference for all providers to support</li> </ul>	<p>A draft assurance map has been developed and is now being discussed with interested parties to be developed further.</p> <p>The inaugural meeting of the TfL Assurance Group was held on October 24 and a follow up is being arranged for January.</p>

	understanding and knowledge sharing between the teams.	
4	<p><b>KPIs</b></p> <ul style="list-style-type: none"> <li>• Clear performance targets should be established and aligned to stakeholders' success criteria for IA. For example, if one criterion is to have a professional IA function, associated KPIs may cover % of staff with an IA qualification, number of CPD hours per year, # training days incurred.</li> <li>• The Audit Committee should formally set out their success criteria for IA and review and approve the associated performance targets.</li> <li>• Performance against the KPIs should be monitored and reported.</li> </ul>	A project is underway to develop a balanced scorecard for the department that will cover these requirements. This will be discussed and agreed with the Audit Committee at its March meeting and incorporated into reporting to the Committee from Q1 2009/10.
5	<p><b>Protocols for working relationship with External Audit</b></p> <ul style="list-style-type: none"> <li>• Develop a formal protocol setting out the relationship between External Audit and IA. This should cover areas such as: when and how often meetings will take place; sharing of work programmes and test plans; which types of reviews External</li> <li>• Audit will rely on and the timing of when IA will conduct them etc.</li> <li>• The protocol should be approved by the AC.</li> <li>• On an annual basis, External Audit and IA should jointly self-assess their compliance with the protocol and report their results to the AC.</li> <li>• The protocol should be periodically reviewed and updated as appropriate before re-approval by the AC.</li> </ul>	A protocol has been developed by KMPG and discussed with the Director of Internal Audit and is on this meeting's agenda for approval.
6	<p><b>Scope of Work – contracts</b></p> <p>On a risk basis, select a defined number of contractors and invoke the right to audit clause of the contract.</p>	Included in 2009/10 audit planning
7	<p><b>Risk Based Approach to audits</b></p> <ul style="list-style-type: none"> <li>• Relevant and specific key risks for the area to be reviewed</li> </ul>	In progress as part of the review of workpapers.

	<p>should be outlined in the Engagement Letter so there is a clear alignment between risk, scope and approach.</p> <ul style="list-style-type: none"> <li>• Equally, work programmes should include relevant risks so that the auditor can make a clearer assessment of whether controls noted are sufficient and appropriate.</li> </ul>	
8	<p><b>Succession Planning</b></p> <ul style="list-style-type: none"> <li>• A formal succession and recruitment plan should be developed by the Director of IA, in conjunction with General Counsel. This should set out competencies required, potential internal candidates and reputable headhunters to be approached for senior staff to fulfil the role on an interim or permanent basis.</li> <li>• Once developed, the succession plan should be approved by the AC.</li> <li>• The plan should be revisited on at least an annual basis to ensure it remains current in the light of business changes and the associated demands on IA.</li> </ul>	<p>A draft succession plan has been developed and will be discussed with the Chair of the Audit Committee.</p>
9	<p><b>Technical Competency Framework</b></p> <p>Technical competencies for Senior Audit Managers should be clearly defined and made available to the IA team.</p>	<p>In progress – it will be ready for December 08 so it can be used in appraisals in March 09</p>
10	<p><b>Recording Audit Assignments – document retention</b></p> <p>A formal policy for the retention of and access to all audit working papers to be defined.</p>	<p>In progress – to be completed December 08</p>
11	<p><b>Engagement letters</b></p> <ul style="list-style-type: none"> <li>• Ensure all IA team are aware that exclusions from scope should be clearly highlighted in the Engagement Letter.</li> <li>• The TfL IA manual should be updated to reflect this requirement when next reviewed.</li> </ul>	<p>To be included in the review of the Letter of Engagement later this year and included in the Audit Manual Revision due February 09.</p>
12	<p><b>Programmes/Scope</b></p> <ul style="list-style-type: none"> <li>• If scope is flexed during the review (either increasing or</li> </ul>	<p>To be included in review of format of papers in</p>

	<p>decreasing work), this should be documented in the interim and final report, along with the rationale for the change.</p> <ul style="list-style-type: none"> <li>• A standard format for work programmes should be developed which clearly aligns the work programme to the agreed scope (and risk within the process / area).</li> <li>• Furthermore, protocols for how issues are highlighted in work programmes should be developed so that there is consistency across teams.</li> </ul>	<p>Auto Audit and included in revision of Audit Manual.</p>
<p>13</p>	<p><b>For Audit Manual Revision/Reminders</b>                  Staff should be reminded that, as set out in the IA methodology, interim memos should be issued on a regular basis during real-time audits.</p> <p>Key issues are raised with the auditee as soon as they are noted, the manual does not formally state that this approach should be adopted.</p>	<p>To be included in review of format of papers in Auto Audit and included in revision of Audit Manual.</p>