

**Date:** 14 December 2017

**Item:** Reporting of Control Environment Trend Indicators to the Audit and Assurance Committee

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## **This paper will be considered in public**

### **1 Summary**

- 1.1 The purpose of this paper is to report to the Committee on the proposed approach to developing a set of indicators to show trends in the effectiveness of TfL's control environment.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the report and endorse the proposed next steps.**

### **3 Background**

- 3.1 At its meeting on 11 October 2017, the Committee set a challenge, jointly, to Internal Audit, Finance and the external auditors, to identify a set of indicators that could be used by the Committee to enable it to monitor trends in the effectiveness of TfL's control environment.
- 3.2 Subsequently, representatives of Internal Audit, Finance and the external auditors met with the Chair of the Committee to explore possible indicators that could be used. Areas considered are set out in the following paragraphs. This is not intended to be a comprehensive list, and we will seek to identify other potential indicators over the next few months.

#### **Internal Audit Indicators**

- 3.3 Internal Audit has historically reported on numbers of audit reports issued each quarter analysed by audit conclusion. This information could be adapted to show trends of (say) numbers of audit reports concluded as 'poorly controlled' over time, which may provide an indication of how the overall effectiveness of the control environment is changing, or highlight particular areas of the business where issues are more frequently found.
- 3.4 Internal Audit also reports regularly on the completion of audit actions. Again this information could be adapted to show trends concerning the timely completion of actions and highlight areas that are not addressing actions promptly.
- 3.5 In addition, we will look at how we can better analyse the issues identified through audit and assurance reports, with the aim of drawing out underlying root causes that may need tackling on a pan-TfL basis.

## **Risk Indicators**

- 3.6 In addition to the regular reporting on the status of TfL's strategic risks, there is an opportunity to use information from the ARM risk management system to report on the extent to which different areas of the business are regularly reviewing and updating their risks, and delivering on risk mitigations. Crossrail has been reporting this type of information to its Audit Committee for a number of years.

## **Finance and Procurement Indicators**

- 3.7 There is a range of potential indicators relating to financial and procurement processes that could be used to provide a more general indication of the effectiveness of the control environment. These could include some or all of the following:
- (a) duplicate invoices paid;
  - (b) purchase orders issued after an invoice has been received;
  - (c) number of procurements carried out through single sourcing;
  - (d) extent to which invoices of small and medium enterprises (SMEs) are being paid on a timely basis;
  - (e) trends on system maintained SAP permissions and risks that are mitigated; and
  - (f) trends on system maintained high risk financial controls identified and mitigated.

## **Other Areas**

- 3.8 Project delivery – we will review the feasibility of providing a simple indicator showing the extent to which project milestones are being delivered on a timely basis across the organisation.
- 3.9 IT systems resilience – we will consider whether it is possible to provide an indicator demonstrating resilience of critical IT systems – for example the extent to which these systems have been unavailable during the period under review.

## **4 Next Steps**

- 4.1 We will continue to develop the ideas set out above, as well as identifying other potential indicators, with the aim of presenting a full proposed set of trend indicators to the 6 March 2018 meeting of the Committee for approval.
- 4.2 We will then commence regular quarterly reporting against these indicators with effect from the June 2018 meeting of the Committee
- 4.3 We will keep the list of indicators under continuous review, in liaison with the Committee, to assess the extent to which the various indicators are providing worthwhile information. It is, therefore, likely that the indicators will continue to evolve over time.

**List of appendices to this report:**

None

**List of Background Papers:**

None

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