



# Internal Audit Plan 2008/09



MAYOR OF LONDON

Transport for London 

## **Transport for London**

### **Internal Audit Plan 2008/09**

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## **Transport for London**

### **Internal Audit Plan for 2008/09**

#### **1. Introduction**

Internal Audit's objectives are to:

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

It is Internal Audit's intention to maintain its working practices to achieve its objectives in accordance with best practice as articulated by CIPFA, the Institute of Internal Auditors ("IIA") and any other relevant guidance as may be published from time to time. The current principal publications are CIPFA's Code of Practice for Internal Audit in Local Government (revised 2006) ("the Code"), the IIA's Risk Based Internal Audit Guidelines and the IIA's Principles of Best Practice.

The Code requires the Director of Internal Audit to produce an Internal Audit Strategy ("the Strategy") which can either be produced as a separate document or incorporated within others. This Annual Audit Plan (which is itself a requirement of the Code) forms part of the Strategy, the other key document being the Audit Planning Paper (presented to the Committee in January).

The Strategy requires the internal audit plan to be aligned to TfL's objectives and priorities. We achieve this by producing a risk based plan starting from TfL's strategic risk map.

## 2. Summary of Plan

This plan covers the TfL Group and the TfL Nominees which are due to take over the Metronet undertakings shortly. Planned work on the latter is included under LU. We currently provide internal audit services to Crossrail which are reported separately to its Audit Committee. Once Crossrail becomes a TfL subsidiary, the internal audit plan will be shared with this Audit Committee. London's Transport Museum is being established as a separate charitable company with a trading subsidiary. We will be developing a separate audit plan for the new entity which will be reported to the Museum's Audit Committee and to this Committee. We also provide internal audit services to the TfL Pension Fund which are reported to the Trustees via their Audit Committee.

Although there is a preliminary detailed list of audits for the year underpinning this narrative plan, we only confirm our audit plans as we go through the year on a quarterly basis. This is to ensure that the plan remains in line with the risks and to ensure we take account of amendments to management plans and unforeseen issues which can arise on which assurance is required. In order to maintain sufficient flexibility in the audit plan, therefore, most of the work is only confirmed at the beginning of each quarter via confirmation processes tailored to each business unit including discussions with Chief Officers.

The Chief Finance Officer and external auditors will also be updated on the plan on a quarterly basis.

The following table gives a broad indication of the allocation of resource by risk and directorate.

The total plan for 2007/08 required 5,945 days (excluding the Pension Fund, LT Museum and Crossrail) compared to 6,656 this year. The outcome of the 2007/08 audit plan will be reported at the next Committee meeting in June.

## Summary of allocation of internal audit resources by risk and directorate 2008/09

	<i>TfL Strategic Risk</i>	<i>Finance</i>	<i>Plann ing</i>	<i>General Counsel</i>	<i>Marketing &amp; Comms</i>	<i>Group Services</i>	<i>Pan TfL</i>	<i>London Rail</i>	<i>LUL</i>	<i>Surface</i>	<i>Total Days</i>
1	Availability and use of funding	110					200	30	120	30	<b>490</b>
2	Project delivery	81	15			90	645	70	270	320	<b>1491</b>
3	Effective contract management	90	20			130	170	70	445	345	<b>1270</b>
4	Major safety or other internal event					120	25			20	<b>165</b>
5	Industrial relations										<b>0</b>
6	Quality and quantity of people					220	75		10	20	<b>325</b>
7	Resilience to major external event			10		50	40	90	95	20	<b>305</b>
8	Political imperatives						30				<b>30</b>
9	IM systems and strategy	600			60		30	50	245	230	<b>1215</b>
10	Operational delivery									130	<b>130</b>
11	Governance			115			80	20	85	125	<b>425</b>
12	Revenue Collection	25			45		35	30		70	<b>205</b>
	<b>Total days</b>	<b>906</b>	<b>35</b>	<b>125</b>	<b>105</b>	<b>610</b>	<b>1330</b>	<b>360</b>	<b>1270</b>	<b>1310</b>	<b>6051</b>
	<b>10% Contingency</b>										<b>605</b>
	<b>Total days</b>										<b>6656</b>

The above excludes Crossrail, the Museum and the Pension Fund and compares to an equivalent total last year of 5945 days.

### **3. Delivering the Plan**

#### *Strategy*

The methodologies for delivering the Audit Plan are set out in the Audit Manual which is reviewed at least once every two years and whenever new guidance relevant to our working practices is received. The Manual was last updated in November 2007. Our work is carried out using AutoAudit, a software workpaper package.

We will report our findings via Interim Reports, Urgent Internal Audit Findings, memos or such other means as might prove suitable. We will also contribute to development and debate of risk mitigation and internal controls by reviewing new processes and policies as they are developed and by sitting on Project Boards and working groups.

The Director of Internal Audit will prepare an annual report each year, summarising the work completed and comparing this to the original audit plan. This information, together with other information obtained or observed during the year and the outputs from other sources of assurance, will be used to give assurance on the management of the strategic risks and an overall opinion on internal control.

### **4. Resources**

#### *Resourcing strategy*

The Internal Audit service will be delivered largely with in-house permanent employees. We also provide six month placements for CIPFA trainees. However, recognising the need for expertise in SAP systems and other areas from time to time, Internal Audit has a co-sourcing arrangement with Ernst & Young (E&Y). The contract runs until March 2010 and provides for E&Y to support delivery of certain sections of the Audit Plan and give ad hoc support where needed to cover resource shortages or supply expertise in specialist areas. This may include fraud investigations as well as general audit work.

Because TfL's contracts are frequently with major private companies, there are occasions when E&Y is conflicted out of doing Internal Audit work because of a pre-existing relationship with a supplier or potential supplier. To ensure Internal Audit still has access to the expertise required, a co-sourcing framework has been established which also runs to March 2010. Suppliers on this framework are PricewaterhouseCoopers, Deloitte and Grant Thornton.

Reflecting the focus of TfL's business and risks on projects and contracts, the Internal Audit department is staffed by experienced project and contract managers as well as financially qualified auditors, IM auditors, security auditors and fraud investigators. Full induction programmes and ongoing training courses are provided to enable everyone to comply with the Audit Manual and understand the purpose of the Internal Audit function. Staff who do not have an audit background are required to take the Certificate of Internal Audit qualification set by the Institute of Internal Auditors in their first year.

### *Resource requirements*

Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Audit Committee together with the Audit Plan at its March meeting.

The Audit Plan summarised above sets out a requirement of 6,656 days, including a contingency. In addition to this we expect to provide 574 days of internal audit resource to Crossrail, 50 days to the Pension Fund and 100 days to the Museum which gives a total requirement of 7,380 days. Our resource plan for 2008/09 indicates we will have 6,245 days available within the TfL team including E&Y resources. The Metronet team are reviewing the work included in this plan and will add to that work if they believe it to be necessary. The intention is that we will work as one team, in which case the addition of their current resources increases availability to 6,765 days.

**5. Internal Audit Plan by Risk**

**Risk**

**Summary of Planned Audit Work**

1	Availability and use of funding	<p>One significant piece of audit work planned under this risk is around controls over key financial processes in Metronet. We are also planning a series of financial healthcheck audits at cost centre level in TfL and will be reviewing the delivery of expected benefits from the financial shared service centre. We will be auditing treasury management and the business planning process as it is some time since we last audited these areas. We will also be looking at expenditure via TOCU on BTP and Met Police resources and how we assess the value of services received.</p>
2	Project Delivery	<p>We have set aside time to audit Metronet projects, a sample of small projects and to carry out post implementation reviews. The specific focus of all of these audits will be determined as we progress through the year. We will also carry out a review at a pan-TfL level of project appraisal, benefits management and the use of modelling within projects. We will audit the project to move Surface Transport into Palestra.</p> <p>We will be auditing the Hybrid Bus Programme and looking at how DDA initiatives are being accommodated within Surface Transport's projects.</p> <p>There is a proposal to introduce a gated approval process for projects in TfL from 1 April 2008. This would identify points at which assurance would be needed, including assurance from Internal Audit, and could result in amendments or additions to this plan in the short term.</p>
3	Effective contract management	<p>We include the audit of procurement exercises under this risk and have set aside time for a number of such audits in 2008/09. Some of them have already been</p>

		<p>identified, but others will be selected as the year progresses.</p> <p>We continue to carry out audits on the management of PPP and PFI contracts as well as contracts let during 2007/08. We are also going to audit developments such as e-procurement.</p> <p>Our contract audit approach includes asking questions about adherence to the Mayor's responsible procurement policy in every procurement or contract audit we do.</p>
4	Major safety or other internal event	We will audit security arrangements in our new buildings – Palestra and Greenwich Peninsular – and are also planning a number of audits around the disposal of assets and waste of all types..
5	Industrial relations	We are not planning any work connected with this risk this year
6	Quality and quantity of people	We will be auditing the new attraction strategy as it is developed through involvement in the project steering group and we will review various aspects of referencing, vetting and security screening of our own recruits and contractors. We will also review diversity reporting and HRS performance measurement and target setting.
7	Resilience to major external event	<p>We will be continuing to support LU in rolling out Control Risk Self Assurance for station security and will be working with London Rail to develop the same assurance process for London Overground and with Group Property and Facilities in respect of building security.</p> <p>A number of other audits are planned around specific security issues.</p>
8	Political imperatives	We plan to audit the implementation of the London Living Wage across some of our contractors. This will also enable us to begin to fulfil the Code of Practice requirement to audit partnership arrangements.
9	IM systems and strategy	We have a variety of audits planned around implementation of software, development of IM projects and ongoing testing of controls around infrastructure

		such as security processes and SAP application controls. We will also review contract management within IM. In addition we have planned audits of core IM controls in Metronet.
10	Operational delivery	We will be revisiting East Thames Buses and Victoria Coach Station to review all key control processes. We will also be auditing the Private Hire Licensing processes at the PCO. We are planning to review processes in place for monitoring the condition of capital assets in Streets
11	Governance	We are planning a number of IM health check audits across the organisation. These checks focus on the governance, strategy, policy, procedures and standards across the IM organisation. We will be continuing our review of risk management processes in the directorates and also reviewing the implementation of the new scheme of delegation approved by the Board in the revised standing orders.
12	Revenue collection	Audits planned include revenue protection processes, fares refund processes and the strategic approach to fraud reduction across TfL.

## **6. External Audit reliance on Internal Audit**

KPMG have reviewed the Internal Audit plan for 2008/09 and have identified how our work will impact on their audit approach during the year. They have categorised this into three areas: reviews where they plan to rely on our work; reviews where they plan to work jointly with us; and reviews which will inform their audit approach.

There are two specific reviews which KPMG plan to rely on for the purposes of the external audit for 2008/09. These are 'Controls over physical payment processes at the Financial Services Centre' and 'Treasury Management'. They will liaise with us on the timing of these reviews.

There are a number of reviews over the financial processes at Metronet where KPMG propose to work jointly with us. They plan to discuss the scope and timing of these audits with us in April 2008. In addition, they will continue to liaise with our IT auditors on the IM systems and strategy reviews where appropriate.

There are a number of reviews which are scheduled to be performed across the year which will inform KPMG's accounts audit approach and assessment of TfL's arrangements over its Use of Resources. These span across the group and relate to specific risks. The reviews related to financial health checks, procurement, risk management, contract management, partnership governance and claims management.