

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

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

**DATE: 10 JUNE 2009**

---

**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 carried out by KPMG in 2008. The Committee is requested to note the paper.

**2 BACKGROUND**

2.1 In accordance with our agreed policy, KPMG carried out a review of the effectiveness of the Internal Audit function in 2008. 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 While 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. We have closed a number of actions and KPMG have concurred with this.

2.3 In accordance with the agreed policy, an update on the remaining actions will be provided in twelve months' time and we will also carry out a self assessment of effectiveness against the Code of Practice for Internal Audit in Local Government in the United Kingdom.

**3 RECOMMENDATION**

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

**4 CONTACT**

4.1 Contact: Mary Hardy, Director of Internal Audit  
Phone: 020 7126 3022

## 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>No further guidance has been published on what is meant by partnerships and partnership arrangements.</p> <p>We continue to include Borough Partnerships and TfL's management thereof in our planning process. TfL's working relationships with the Boroughs are changing and we are taking account of that in planning our audit approach. All other significant working relationships are covered by contracts.</p> <p>This action is considered closed.</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>We have developed a vision, mission and goals statement and the accompanying strategy and supporting balanced scorecard are in development. We are targeting using the new scorecard to report to the Audit Committee from Q1 onwards.</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 can consider what further assurance it might require and develop plans to remedy the position to best effect.</li> <li>• Once a full list is compiled, the Director of IA is to host a joint Assurance conference for all providers to support understanding and knowledge sharing between the</li> </ul>	<p>The draft assurance map is now being validated with relevant managers across the business. The target is to include an agreed version of the document in the next Commissioner's Quarterly Strategic Risk Report (July 2009).</p> <p>The TfL Assurance Group, comprising the heads of the various compliance and assurance groups around the Group is now well established and has agreed to meet on an ongoing basis. It was agreed, however, that we have insufficient in common to warrant a joint conference at this time although</p>

	teams.	consideration is being given to joint training opportunities for some groups who share specialist skills.  This part of this action is now closed.
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. It is the intention that this will be finalised so that it can be 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 agreed and approved by the Audit Committee.  This action is now closed.
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 and this action is now closed.

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 should be outlined in the Engagement Letter so there is a clear alignment between risk, scope and approach.</li> <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>	<p>Guidance set out in section 5.7 of the Audit Manual 2009.</p> <p>Guidance set out in Section 5.8 of the Audit Manual 2009.</p> <p>This action is now closed.</p>
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 succession plan has been developed and approved by the Chair of the Audit Committee.</p> <p>General Counsel (as line manager for the Director of Internal Audit) and the Chair of the Audit Committee will review the plan annually.</p> <p>This action is now closed.</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>Senior Audit Manager job descriptions, and the leadership guide underpinning the TfL leadership principles that are used instead of competencies at this level, are available for all to see. Although not required by the TfL model, we have developed competencies for Audit Managers so that auditors can see what is needed to get to that level.</p> <p>This action is now closed</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>A policy has been developed and published.</p> <p>This action is now closed.</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>Guidance on exclusions set out in Section 5.7 of the Audit Manual.</p> <p>This action is now closed.</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 decreasing work), this should be documented in the interim and final report, along with the rationale for the change.</li> <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>Guidance on flexing of scope during a review set out in Section 7.4 of the Audit Manual 2009.</p> <p>Guidance and instruction on the format for work programmes is set out in the Working Papers Guidance and Section 5.8 of the Audit Manual 2009. Guidance set out in Section 3.2 of the Working Papers Guidance.</p> <p>This action is now closed.</p>
13	<p><b>For Audit Manual Revision/Reminders</b></p> <p>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>Revised instruction set out in Section 7.12 of the Audit Manual 2009.</p> <p>Now formally stated in Section 7.3 of the Audit Manual 2009.</p> <p>This action is now closed</p>