

Date: 6 March 2018

Item: Internal Audit Charter

This paper will be considered in public

1 Summary

1.1 The purpose of this report is to inform the Committee of the update to the Internal Audit Charter.

2 Recommendation

2.1 **The Committee is asked to approve the updated Internal Audit Charter.**

3 Background

3.1 The Public Sector Internal Audit Standards, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and other relevant standard setters in collaboration with the Chartered Institute of Internal Audit (IIA), require there to be an Internal Audit Charter which sets out the purpose, authority and responsibility of the Internal Audit function. TfL's Internal Audit Charter was last updated in October 2015.

3.2 We reported to the Committee at its meeting of 13 July 2017 on the findings from the External Quality Assessment (EQA) of TfL Internal Audit carried out by the IIA. One of the recommendations was that we should update our Charter to bring it in line with the latest changes to the IIA's International Professional Practices Framework (IPPF).

3.3 We agreed with the Committee that we would update the Charter once our Corporate Assurance transformation programme had completed. This would enable the updated Charter to also take account of the new Risk and Assurance Directorate structure.

3.4 The updated Internal Audit Charter is included as Appendix 1.

List of appendices to this report:

Appendix 1 – Internal Audit Charter

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Appendix 1

Internal Audit Charter

Risk and Assurance
March 2018

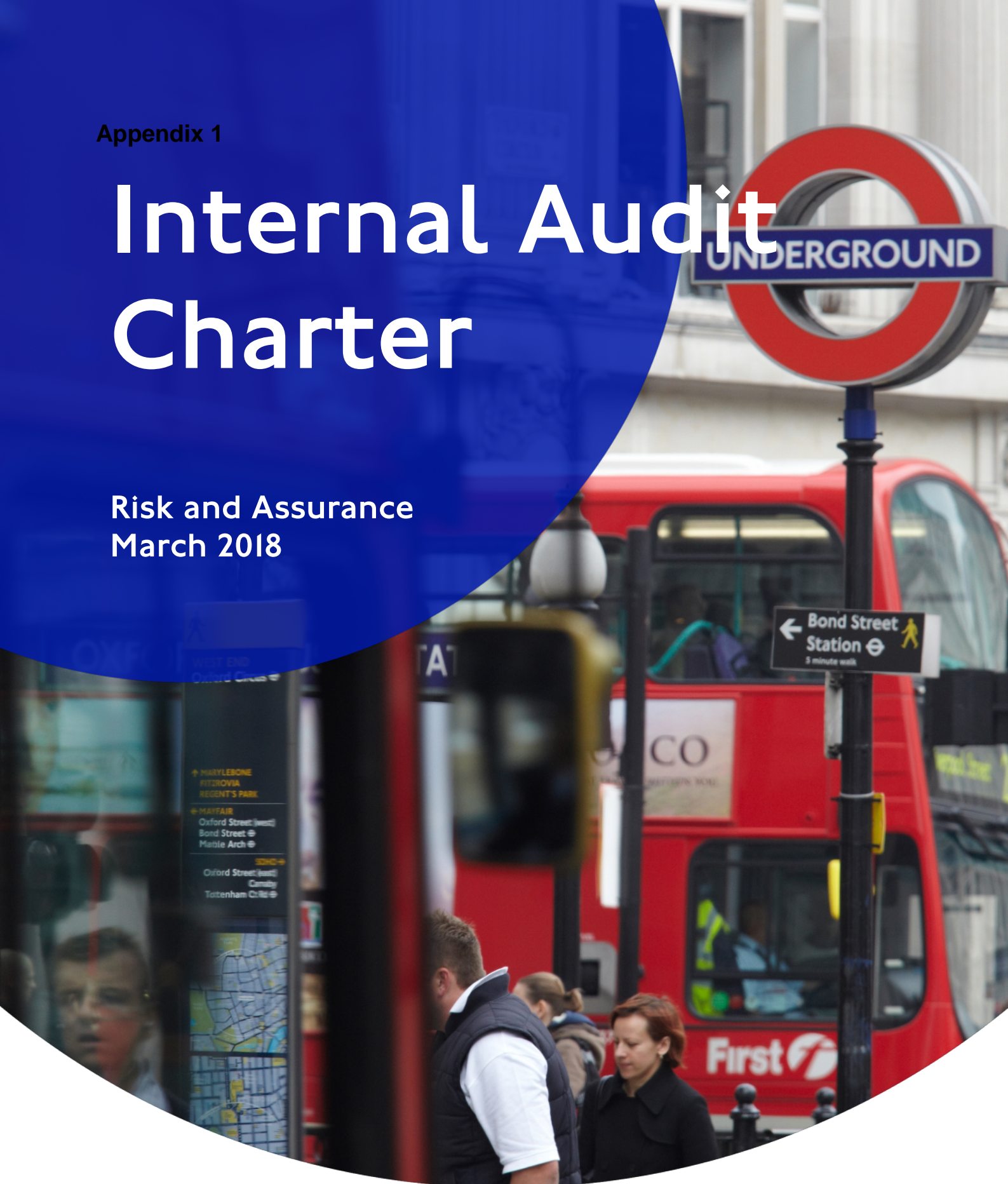


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Purpose and mission

The purpose of TfL's Internal Audit function, is to provide independent, objective assurance and consulting services designed to add value to TfL's operations. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

Standards for the Professional Practice of Internal Auditing

Internal Audit conducts its work in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the IIA International Professional Practices Framework (IPPF), including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

Authority

The Head of Internal Audit is accountable to the TfL Audit and Assurance Committee, and reports administratively through the Director of Risk and Assurance to TfL's General Counsel.

To ensure that Internal Audit has sufficient authority to fulfil its duties, the Audit and Assurance Committee will, on behalf of the TfL Board:

- Approve the Internal Audit Charter;
- Approve the risk-based Internal Audit plan;
- Approve decisions regarding the appointment and removal of the Head of Internal Audit.

In addition, in accordance with Standing Orders, the appointment and dismissal of the Director of Risk and Assurance are reserved to the Board in order to ensure organisational independence.

The Director of Risk and Assurance and the Head of Internal Audit have access, when required, to the Commissioner and the Chair of the Audit and Assurance Committee. At least annually, the Director of Risk and Assurance and the Head of Internal Audit will meet privately with the Audit and Assurance Committee with no other members of TfL executive management present.

The Chief Finance Officer has specific responsibilities set out in the Local Government Act 1972 and the GLA Act 1999 for the probity of financial systems. From time to time, the CFO may, require Internal Audit to perform specific reviews to enable him/her to fulfil his/her responsibilities.

For the purposes of completing its work Internal Audit:

- Has full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- May allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Will if required, use specialist resources, or other specialised co-source partners, from within or outside TfL, in order to complete the engagement.

Independence and objectivity

The Head of Internal Audit is responsible for ensuring that Internal Audit remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired, or perceived to be so, the impairment will be disclosed to the Audit and Assurance Committee.

Where the Head of Internal Audit either has, or expects to have, roles and/or responsibilities that fall outside of Internal Auditing, safeguards will be established to limit impairments to independence, or objectivity. Where Internal Audit performs audits of activities carried out by other teams within the Risk and Assurance Directorate (e.g. audits of risk management or fraud management activities), the Director of Risk and Assurance will be excluded from involvement in management of the audit process.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year;
- Initiating or approving transactions external to the Internal Audit function;
- Directing the activities of any TfL employee not employed by the Internal Audit function, except when employees are assigned to auditing teams, or to otherwise assist Internal Auditors.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- Make balanced assessments of all available and relevant facts and circumstances;
- Take necessary precautions to avoid undue influence, by their own interests, or by others in forming judgments.

Scope of Internal Audit activities

The scope of Internal Audit work includes, but is not limited to the use of real-time and scenario-based methods to perform objective examination of evidence. Such methods allow Internal Audit to provide independent assessments to the Board, the Audit and Assurance Committee, management, and outside parties, on the adequacy and effectiveness of governance, risk management, and control processes for TfL. Internal Audit may also deliver internal consultancy services with the objective of identifying opportunities for improving the efficiency of governance, risk management and control processes.

The Head of Internal Audit coordinates audit activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Internal Audit assessments include, but are not restricted to, evaluating whether:

- Risks relating to the achievement of TfL's strategic objectives are appropriately identified and managed;
- The actions of TfL's officers, directors, employees, and contractors are in compliance with TfL's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programmes are consistent with established goals and objectives;
- Operations or programmes are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies; procedures, laws, and regulations that could significantly impact TfL;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity;
- Resources and assets are acquired economically used efficiently, and protected adequately.

Reporting

Internal Audit will report regularly to the Executive Committee and the TfL Audit and Assurance Committee regarding:

- The organisational independence of Internal Audit;
- Restrictions on the scope of Internal Audit's work, or its ability to report its findings, and related implications;
- Internal Audit's purpose, authority, and responsibility (charter);
- Internal Audit's plan, and performance (scorecard);
- Internal Audit conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues;
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit and Assurance Committee;
- Results of audit engagements, or other activities;
- Any management response to risk that may be unacceptable to TfL.

Responsibility and accountabilities

Internal Audit has the responsibility to:

- Develop and maintain, in discussion with the Executive Committee, an Integrated Assurance plan to provide assurance over the management of TfL's strategic risks, and submit this, at least annually for review and approval;
- Communicate the impact of resource limitations on delivery of Internal Audit's planned work;
- Review and adjust the plan, as necessary, in response to changes in TfL's business, risks, operations, programmes, systems and controls, and present these changes to the Audit and Assurance Committee for approval;
- Ensure each Internal Audit engagement is executed in alignment with the established methodologies;

- Follow up on engagement findings and management actions, and report periodically on any management actions not effectively implemented;
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter;
- Ensure trends and emerging issues that could affect TfL are considered, and communicated as appropriate;
- Ensure emerging trends and successful practices in the Internal Audit profession are considered;
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit function;
- Ensure adherence to TfL's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to the Executive Committee and the Audit and Assurance Committee;
- Ensure conformance of Internal Audit with the IIA and PSIA standards, and where exceptions exist, ensure appropriate disclosures as part regular reporting.

TfL management's responsibility

As an independent and objective third line of defence review and support activity, Internal Audit makes recommendations for the improvement of internal control and risk management. It is management's decision and responsibility to:

- Identify, evaluate and manage risk within their business operations;
- Work with Internal Audit to provide input to scope;
- Ensure that Internal Audit has full support of management and their teams in completing their work;
- Ensure adequate resources are available to support the audit;
- Implement time-bound cost effective, and appropriate actions to address internal control weaknesses identified;
- Determine whether disciplinary action or criminal or civil proceedings should be initiated because of matters identified following an Internal Audit.

Quality assurance and improvement programme

Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of Internal Audit activity. The programme will include an evaluation of Internal Audit's conformance with IIA standards and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of the Internal Audit function, and identify opportunities for improvement.

At least once every five years, an external, qualified independent assessor or assessment team will assess the quality assurance and improvement programme.

Document approval:

Head of Internal Audit Date:

Director of Risk and Assurance Date:

MD General Counsel Date:

Audit and Assurance Committee Chair Date:

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