



TRANSPORT FOR THE NORTH

Internal Audit Strategy 2018/19 - 2022/23 (including the Internal Audit Plan for 2020/21)

Presented at the Audit and Governance Committee meeting on
28 February 2020

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To the fullest extent permitted by law, RSM Risk Assurance Services LLP
will accept no responsibility or liability in respect of this report to any other party.

EXECUTIVE SUMMARY

Our internal audit plan for 2020/21 is presented for consideration by the Audit and Governance Committee.

The key points to note from our plan are:



2020/21 internal audit priorities: Internal audit activity for 2020/21 is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting you in the year ahead. Our detailed plan for 2020/21 is included in Section 1.



Level of resource: The level of resource required to deliver the plan is broadly in line with 2019/20, with the daily rate held in line with the agreement made upon our appointment. We will continue to use technology when undertaking operational audits in 2020/21, where applicable. This will strengthen our sampling, increasing the level of assurance provided.



Core assurance: As discussed with the Finance Director, the focus of our internal audit strategy relates to the Corporate Risk Theme of 'TfN Operations'. We do not propose to duplicate other assurance mechanisms that Transport for the North (TfN) has in place, and our service will allow for a complimentary assurance and scrutiny framework with reporting to the Audit and Governance Committee.

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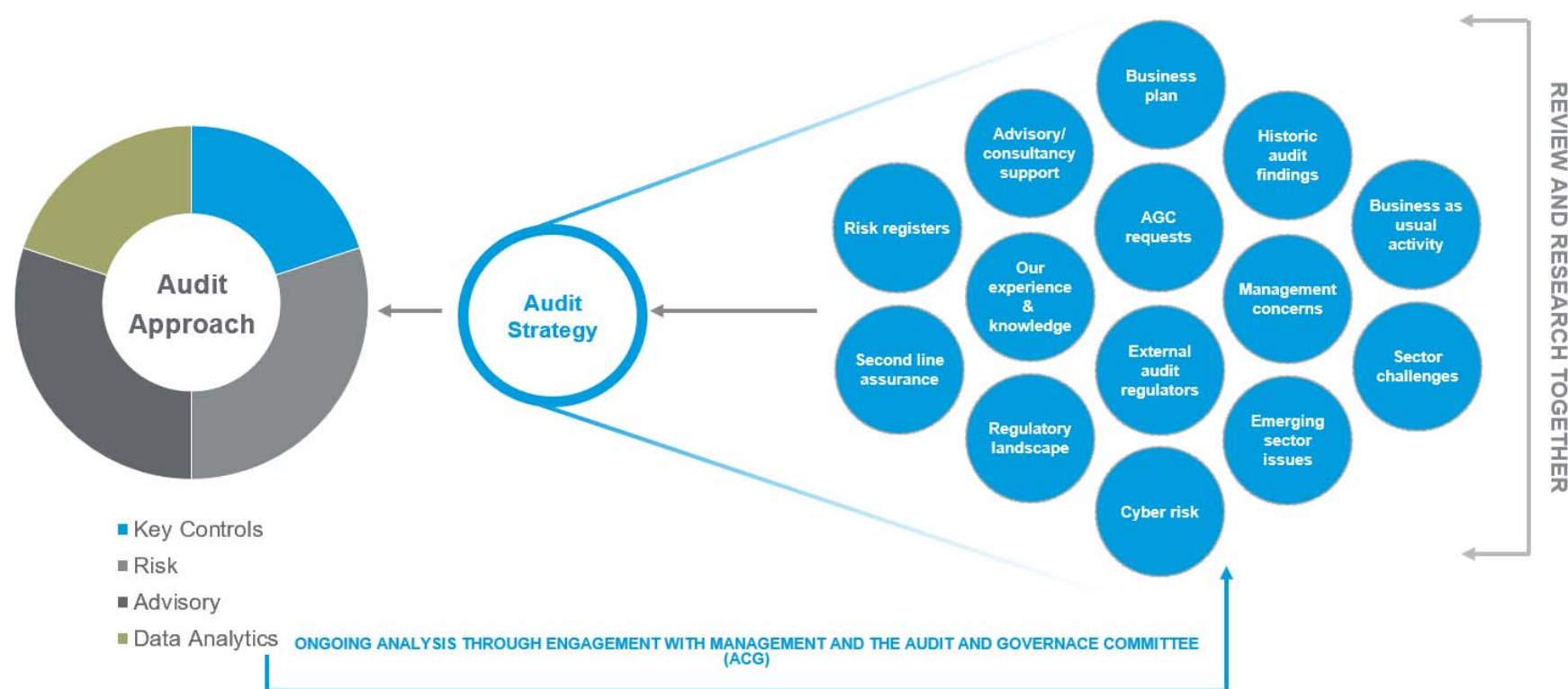
1. YOUR INTERNAL AUDIT PLAN 2020/21

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting Transport for the North in the year ahead.

Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk register to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with the Finance Director. Our service will allow for a complimentary assurance and scrutiny framework with reporting to the Audit and Governance Committee.

Figure A: Audit considerations – sources considered when developing the internal audit strategy:



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high-level strategy (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2020/21

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2020/21. The table details core areas of assurance which may warrant internal audit coverage. This allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
Core assurance			
<u>Risk Management – Risk Register Deep Dive</u> This review will take the approach of a 'deep dive' into a sample of risks and associated control mechanisms to provide assurance over control existence and quality. For each selected risk, we will review the information recorded in the risk register to determine whether the actions and activities being undertaken by management to mitigate the risks are clearly described. In addition to this, for each selected risk we will also test whether evidence is in place to demonstrate the existence of each activity as recorded in the risk register (this will include an assessment of the accuracy with which the control and assurance information is recorded in the risk register based on the underlying records/evidence).	Assurance	Quarter 1	June 2020
<u>Contract Management</u> This review is designed to evaluate the systems and processes in place for reviewing and approving contracts with external parties (this includes consideration of project delivery and IT related contracts). This will also include consideration of the processes for ensuring funding allocations are utilised through TfN's contracted activities. As part of the review we will test a sample of contracts to identify whether appropriate individuals have reviewed and approved the contracts, and that their roles/responsibilities and accountabilities are consistent with the relevant approval limits. We will also review the processes in place for recording, storing and maintaining contract documentation. This will include consideration of how contract expiry dates are monitored.	Assurance	Quarter 1 or 2	September 2020
<u>New Payment Process</u> TfN is currently in the process of revising its commissioning procurement payment workflows. Our review is designed to assess the controls in place that support payments made to external parties following the changes made to the related workflows.	Assurance	Quarter 2	September 2020

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
<p>We will consider the way in which authorisation levels have been agreed/approved and communicated to staff across the organisation (this will include consideration of the inputting of authorisation levels to the procurement/payment system). We will also review the processes for ensuring evidence is in place to support the authorisation of payments to suppliers/external parties, including the processes used for storing evidence.</p> <p>As part of the audit we will test a sample of payments completed during the current financial year to determine whether the payments have been approved prior to being completed in accordance with agreed authorisation levels.</p>			
<u>Human Resources – Recruitment and Selection</u>	Assurance	Quarter 3	December 2020
<p>We will review compliance against TfN's Recruitment and Selection Procedure, and we will consider the organisation's processes in terms of the General Data Protection Regulations (GDPR) and associated handling, storage and use of personal data.</p> <p>This review will consider both the strategic and operational aspects of TfN's recruitment processes. On a strategic level, we will assess how the organisation identifies candidates, advertises posts (where applicable), and how recruitment is undertaken based upon the future needs of the organisation.</p> <p>At an operational level, we will also undertake sample testing to ensure that key HR recruitment policies and procedures are being adhered to throughout the recruitment process. This will include procedures for the identification and approval of new posts, as well as candidate interview, assessment and appointment processes.</p> <p>We will incorporate observations we have made at other organisations in order to support our findings and to suggest any areas of development and good practice for TfN regarding its current recruitment and selection practice.</p>			
<u>IT Audit – Cyber Security</u>	Assurance	Quarter 3 or 4	March 2021
<p>This review, which will be undertaken by our specialists within our Technology Risk Assurance Team, will focus on risks raised by Audit and Governance Committee members in relation to cyber security. Selected controls in the following areas will be considered as part of the review:</p> <ul style="list-style-type: none"> • IT security policies and procedures; • Security over the physical access to core IT infrastructure (servers and cabling); • Network User Registration / De-registration procedures for staff; 			

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
<ul style="list-style-type: none"> • The password policy in place and user account security settings governing access to the TfN network; • System backups; and • Virus protection software. 			
<u>Risk and Governance - Assurance Framework</u> <p>This review is designed to assess the mechanisms used by TfN management and members of the Board for obtaining assurances over the effectiveness of the organisation's controls in relation to identified risks (this follows the recent introduction of an assurance framework at TfN). The following areas will be specifically covered during the review:</p> <ul style="list-style-type: none"> • Procedures for identifying and recording sources of assurance; • Assurance assessment methods, including testing and verification of assurances; and • Procedures for reporting and monitoring control assurances, including the use of early warning indicators. <p>We will incorporate observations we have made at other organisations in order to support our findings and to suggest any areas of development and good practice for TfN.</p>	Advisory	Quarter 4	March 2021
<u>Flexi-time</u> <p>The review will consider the consistent application of the organisation's policy and benchmark practices to compare the method adopted of authorising and recording flexi hours carried forward to that seen at other organisations. This review has been carried forward from 2019/20.</p>	Assurance	Quarter 1	September 2020
Advice and Support			
To be agreed.	Advisory	TBC	TBC
Other Internal Audit Activity			
<u>Follow Up</u> <p>To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.</p>	Follow Up	Quarter 4	March 2021
<u>Management</u> <p>This will include:</p> <ul style="list-style-type: none"> • Annual planning; 	N/A	Ongoing throughout the year	N/A

Audit area and high-level scope	Audit approach	Proposed timing	Proposed Audit and Governance Committee meeting
<ul style="list-style-type: none"> • Preparation for, and attendance at, Audit and Governance Committee meetings; • Regular liaison and progress updates; • Liaison with external audit and other assurance providers; and • Annual summary. 			

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit and Governance Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Lisa Randall as your Head of Internal Audit, who will be supported operationally by Alex Hire, Senior Manager.

Core team

The delivery of the 2020/21 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance that our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Audit and Governance Committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2018/19-2022/23

The table below provides an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in Section 1 above.

The table sets out the areas covered by internal audit as part of previous internal audit plans. Where assurance opinions were provided as a result of the assignments completed, this is indicated in colour in accordance with the key below, against the relevant audit in the year column.

Assurance Provided	Internal Audit – Third Line of Assurance (independent review / assurance)				
	2018/19	2019/20	2020/21	2021/22	2022/23
Red - Minimal Assurance / Poor Progress					
Amber/red - Partial Assurance / Little Progress					
Amber/green - Reasonable Assurance / Reasonable Progress					
Green - Substantial Assurance / Good Progress					
Advisory / AUP					
IDEA					
Audit area					
Risk Management			✓	✓	✓
Corporate Governance (2018/19 opinion informed by Committee attendance and governance elements of individual audits. 2019/20 Northern Powerhouse Rail and Strategic Development Corridors Programme)	✓		✓	✓	✓
Core Financial Systems (2018/19 Payment Authorisation, Expenses and Procurement Cards. 2019/20 Treasury Management)			✓	✓	✓
IT Audit (2018/19 Cyber Security Controls/ 2019/20 Sharepoint)			✓	✓	✓
Procurement Framework					✓
Payroll					
Absence Management and Wellbeing					
Contract Management			✓		

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance
(independent review / assurance)

2018/19 2019/20 2020/21 2021/22 2022/23

Audit area

Human Resources – Recruitment and Selection

✓

Project Assurance Framework

✓

Stakeholder Engagement/Communications

✓

Performance Management and Appraisals

✓

Flexi-time

✓

Business Plan Compliance and Reporting

✓

Advice and Support

✓

✓

✓

✓

✓

Follow Up

✓

✓

✓

✓

✓

Management

✓

✓

✓

✓

✓

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Transport for the North. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Governance Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to Lisa Randall (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Finance Director.

The Head of Internal Audit has unrestricted access to the Chair of Audit and Governance Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Transport for the North. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Governance Committee.

The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Governance Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Governance Committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Governance Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Audit and Governance Committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- Internal audit – a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Leadership Team - who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.
- Board - the highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "Board" may refer to a committee or another body to which the governing body has delegated certain functions (e.g. an Audit and Governance Committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We propose the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Governance Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.

- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Governance Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Governance Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the Board in taking decisions and managing its risks.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Governance Committee.

Fraud

The Audit and Governance Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit and Governance Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Audit and Governance Committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Transport for the North, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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