



TRANSPORT FOR THE NORTH

Internal Audit Strategy 2021/22 - 2023/24 (including the Internal Audit Plan for 2021/22)

Presented at the Audit and Governance Committee meeting of: 18 February 2021

This report is solely for the use of the persons to whom it is addressed.

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

In preparing our Internal Audit Plan for 2021/22 we have worked closely with management to produce an audit programme which remains mindful of the continuing developments and challenges around Covid-19. Whilst this plan is presented for consideration by the Audit and Governance Committee, we will continue to hold regular meetings with management, during the year, to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in these ever changing circumstances.

The key points to note from our plan are:



2021/22 Internal Audit priorities: Internal audit activity for 2021/22 is based on analysing your corporate objectives and risk profile as well as other factors affecting you in the year ahead, including changes within the sector. Our detailed plan for 2021/22 is included at Section 1.



Level of Resource: The level of resource required to deliver the plan is broadly in line with 2020/21, with the daily rate increased in line with the contract extension agreed for 2021/22. We will continue with our approach of introducing the use of technology when undertaking our operational audits. During 2020/21 we embraced more ways of using technology to undertake our audit work including; the use of MS Teams meetings, secure web portals for audit data sharing (Huddle) and data analytics technology. This will strengthen our sampling and focus our audit testing. Refer to Appendix A.



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.



'Agile' approach: Our approach to working with you has always been one where we will respond to your changing assurance needs. By employing 'agile' or a 'flexible' approach to our service delivery, we are able to change the focus of audits / audit delivery; keeping you informed of these changes in our progress papers to Audit and Governance Committee during the year.

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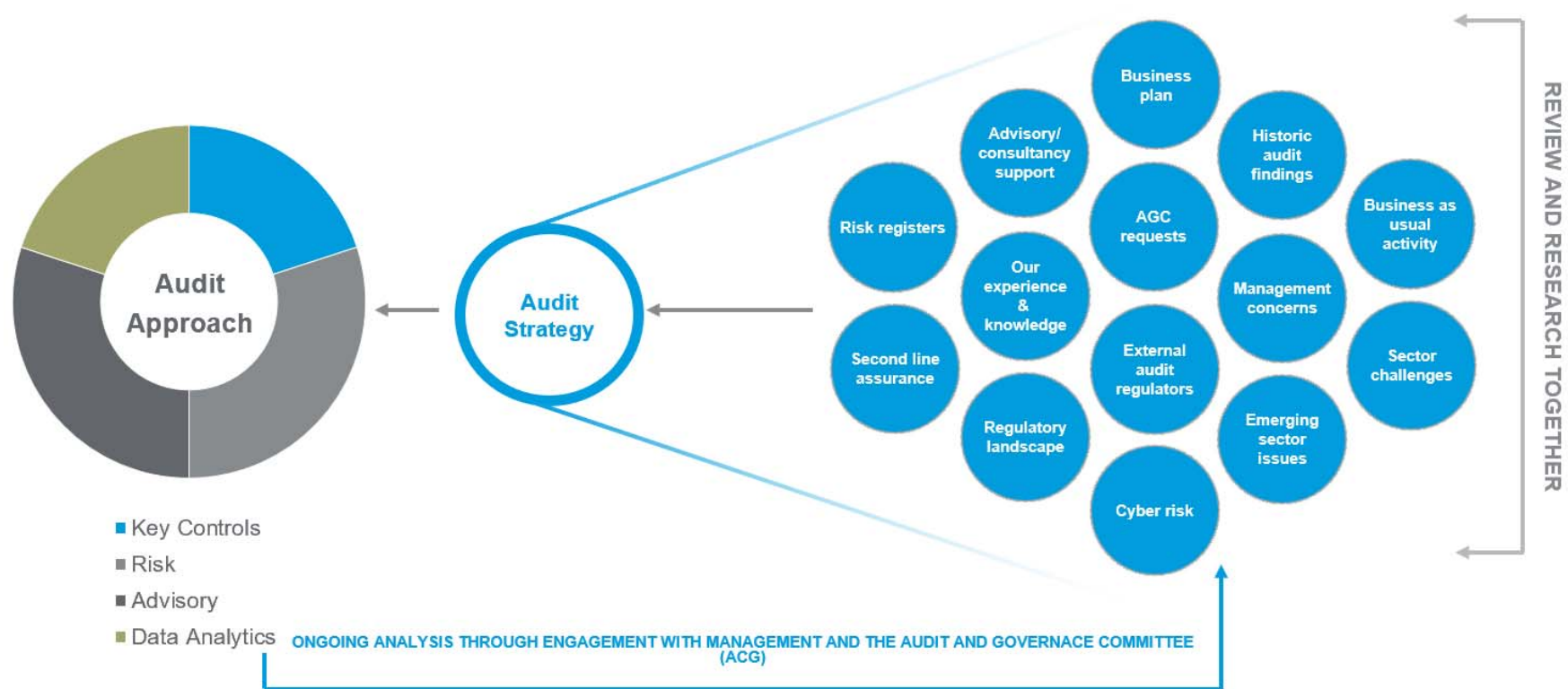
1. YOUR INTERNAL AUDIT PLAN 2021/22

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 2021/22

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2021/22. 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 | | | |
| <p>Governance Effectiveness Framework</p> <p>We will review the effectiveness of the governance arrangements in place at TfN during and post Covid-19 to identify the extent to which the arrangements documented in the TfN Constitution have been followed. We will also identify areas of the governance framework that could be improved based on good practice we have seen in place at other organisations. Our review will consider the following areas:</p> <ul style="list-style-type: none"> • Review of the arrangements set out in the TfN Constitution, including whether approved and up to date terms of reference are in place; • Explore expectations / views of stakeholder (e.g. Members and staff) regarding governance arrangements (methodology to be agreed); • Review of governance reports provided to the TfN Board; • Members induction process; • Calendars of business and meeting cycles, to ensure that these are being complied with (by reference to minutes); and • Registers of interest processes, to assess whether all relevant documentation has been completed and is up to date. <p>In addition, we will issue questionnaires to members and key staff (to be agreed with management) to gain insight into TfN's governance arrangements and conduct at meetings, to compare with good practice.</p> | Assurance | Quarter 1 | July 2021 |
| <p>Risk Management Strategy</p> <p>Our review will consider whether the content of the TfN Risk Management Strategy is in line with good practice we have seen at other organisations, and also consider how TfN's new Risk Management software supports the effective management and reporting of risks. In addition, we will assess how risk</p> | Assurance | Quarter 2 | September 2021 |

| Audit area and high-level scope | Audit approach | Proposed timing | Proposed Audit and Governance Committee meeting |
|--|----------------|-----------------|---|
| <p>management procedures are embedded in relation to the TfN Investment Programme's Benefit Analysis (IPBA) project.</p> | | | |
| <p>Purchase to Pay Framework</p> <p>Our review will consider the processes utilised by TfN in relation to the purchase to pay framework. This will include controls with regard to authorisation of requisitions and payments made to suppliers and assessment of authority levels in place across the organisation.</p> | Assurance | Quarter 3 | December 2021 |
| <p>Flexi-time (deferred from 2020/21)</p> <p>This 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 2020/21. Where appropriate we will incorporate the use of data analytics in our review.</p> | Assurance | Quarter 3 | December 2021 |
| <p>IT Audit: Cyber Security or GDPR Governance</p> <p>Our Follow Up review scheduled for quarter one 2021/22 will consider the implementation of the management actions agreed in the 2020/21 Cyber Security review (report reference 5.20/21), for which 'reasonable' assurance could be taken (two 'medium' and two 'low' priority management actions were agreed).</p> <p>If our Follow Up review identifies that the Cyber Security management actions have not been fully implemented, we will undertake a further Cyber Security review in 2021/22, which will be undertaken by our specialists within our Technology Risk Assurance Team, and will include a review of the tools and systems management used to manage cyber security, including intrusion detection and monitoring, malware, and mobile device management.</p> <p>If our Follow Up review identifies that the 2021/22 Cyber Security management actions have been implemented, we will carry out a GDPR governance review that will be scoped to provide a factual analysis of TfN's data protection controls framework against GDPR requirements and obligations introduced in May 2018.</p> | Assurance | Quarter 4 | September 2021 |
| <p>Advice and Support</p> <p>To be agreed.</p> | Advisory | TBC | TBC |

| Audit area and high-level scope | Audit approach | Proposed timing | Proposed Audit and Governance Committee meeting |
|--|----------------|-----------------------------|---|
| Other Internal Audit Activity | | | |
| Follow Up To meet internal auditing standards, and to provide assurance on action taken to address management actions previously agreed by management. | Follow Up | Quarter 1 | July 2021 |
| Management This will include: <ul style="list-style-type: none"> • Annual planning; • 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. | N/A | Ongoing throughout the year | N/A |

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 and Andrew Mawdsley, Assistant Manager.

Fees

Our fee to deliver the plan is £26,250 (excluding VAT) for a total of 50 days.

Core team

The delivery of the 2021/22 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 whether 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 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.

Our next external review will be conducted during 2021 and we will inform the Audit and Governance Committee of its findings.

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 2021/22 – 2023/24

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 | 2023/24 |
| 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 and 2020/21 opinion informed by Committee attendance and governance elements of individual audits) | ✓ | Strategic Development Corridors Programme Northern Powerhouse Rail | ✓ | Governance Effectiveness Framework | ✓ | ✓ |
| Core Financial Systems | | Payment Authorisation, Expenses and Procurement Cards. | Treasury Management | New Payment (Commissioning) Process | Purchase to Pay Framework | Payroll Value for Money Reporting |

| 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)

| Audit area | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|-----------------------|------------|---------------------|---|---------|---------|
| | Payroll | | | Income Management (in progress) | | |
| IT Audit | Cyber Security | SharePoint | Cyber Security | Follow Up plus either Cyber Security or GDPR Governance | ✓ | ✓ |
| Procurement Framework / Contract Management | Procurement Framework | | Contract Management | | | ✓ |
| Absence Management and Wellbeing | | | | | ✓ | |
| Human Resources – Recruitment and Selection | | | | | | |
| Assurance Framework | | | | Investment Programme Assurance (in progress) | | |
| Stakeholder Engagement/Communications | | | | | ✓ | |
| Performance Management and Appraisals | | | | | | ✓ |

| 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)

| Audit area | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--------------------|---------|---------|---------|---------|---------|---------|
| Health and Safety | | | | | ✓ | |
| Flexi-time | | | | ✓ | | |
| 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 proposed 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 six 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 15 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 / Huddle.
- 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.



We continue to closely monitor and implement official guidelines from the Government and health organisations in respect of Covid-19. All our staff must adhere to the relevant RSM Policies, including limiting time on site and completing the relevant approvals prior to any site visit.

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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