

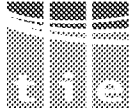
tie Limited.

Three year strategic internal audit plan: 2008/09 – 2010/11

Audit Committee - 9 October 2008

Draft for discussion





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1. Introduction



Background

As the providers of an internal audit function to tie Limited (**tie**), our role is to provide an independent assessment of the design and effectiveness of internal controls across the organisation. We fulfil this role by performing appropriate work as agreed with the Audit Committee and senior management. In carrying out this work we will provide specific recommendations for improving the governance, risk and control framework.

This document sets out our annual internal audit plan for 2008/09 and the proposed strategic internal audit plan for 2008/09 – 2010/11 for consideration and approval by the Audit Committee.

Development of the plan

The approach taken to develop our plans for internal audit activity over the next three years focused on the following areas:

- Meetings with management – we met with the executive management team, audit committee chairman, and several members of the management team to build on our understanding of the corporate structure, status of the tram project and their perception on the key risks and issues facing the organisation.
- Review of documentation – our review of documentation included Tram project reports, organisational charts, delegation of authority policy, previous audit committee papers and business plans to City of Edinburgh Council. This enabled us to gain a stronger appreciation of the governance structures operating across **tie** and the extent of external stakeholder interest.
- Corporate and project risk – in addition to discussions with management on the nature of risks facing **tie** and the tram project, we reviewed the corporate risk register and the project P80 risk register to consider the nature of risks facing **tie** and the mitigating actions proposed by management.
- Governance requirements – in developing our plans, we gave due consideration of the need to provide assurance to the audit committee and **tie** Board with regard to the annual statement on the system of internal control. Our work over the next three years is designed to provide a sufficient scope of work to enable us to provide the necessary feedback in respect of the overall control environment.

Proposed 2008-09 internal audit plan

We propose a total of six internal audit projects are undertaken through to the end of the current financial year. The draft internal audit plan for 2008/09 is designed to provide coverage of the tram project, the overall governance arrangements across **tie** and a focus on the key risks current facing **tie**. A copy of the proposed draft plan for 2008/09 is included at page 2 and we propose a total of 65 days input at an indicative cost of £77,000. In advance of any work commencing, we will confirm the blend of staff to be utilised in providing a cost by internal audit project. The daily rates by grade of staff are attached at Appendix 1.

Strategic internal audit plan

It is recognised that the scope of internal audit work needs to be flexible to accommodate changing priorities and emerging risks. Throughout our tenure, we will work closely with management and the audit committee to ensure internal audit plans reflect management's priorities and risk portfolios. Our three year strategic plan is included at page 3 with an overview of proposed work outlined in pages 4 and 5.

2. 2008/09 internal audit plan



Project ref #	Project name	High level scope	Linkage to corporate risk register	Indicative input	Timing
2008-01	Governance structure	This review will consider the role and remit of the tie board, executive board, project board and delivery teams. Specifically, we will consider the interfaces across tie 's governance structures and the extent to which any duplication exists, the mechanisms used to share information and monitor key corporate & project risks as well as specific feedback on the effectiveness of the audit committee and the effectiveness of internal meetings.	8. TIE reputation	15 days	November 2008
2008-02	Stakeholder management	Review effectiveness of recent moves to align the stakeholder management process to core elements of the project, with a specific focus on the communication to stakeholders in respect of traffic modelling/management. We will also consider process to manage interfaces with other external projects planned across the city such as road works and development projects, and the extent to which these interfaces are considered in business continuity plans.	2. Response to traffic issues 8. TIE reputation	10 days	December 2008
2008-03	INFRACO	To consider mobilisation of Infraco. Review of the contract management process including; contract negotiation, site supervision, work instructions, communication between tie and contractors, change management and the process for evaluating and settling claims. Our work in this area will be undertaken in two phases. The first phase will provide a high level assessment of risks and associated controls in the above areas, with the second phase focused on the management of specific issues arising including the ability to manage project stretch and project congestion.	1. Infraco mobilisation 4. Supplier and contract management	15 days	Stage 1 November 2008 Stage 2 January 2009
2008-04	Financial control environment	The effective stewardship of public funds is a core element in the governance framework of tie . Our work will consider the design and operation of high level controls across the following areas: financial ledger, payroll, cash and bank, invoicing to CEC, procurement, and adherence with delegations of authority. We will also consider controls in respect of payments made from the Small Business Support Scheme.	7. Deficiency in control environment	7 days	December 2008
2008-05	Project and programme reporting	Information contained within progress reports is critical to the confidence internal and external stakeholders place on the Tram project. In 08/09, we will consider the process utilised to extract information from supporting systems in preparing flash reports, 4 weekly reporting packs and reports to CEC and Transport Scotland. This review will consider the integrity and consistency of financial and non financial information contained in such reports.	-	10 days	January 2009
2008-06	Follow up	Follow up on the implementation status of prior year internal audit recommendations and MUDFA review undertaken in August 2008.	-	3 days	February 2009
Admin	IA administration	Planning, liaison with management, progress reporting and audit committee attendance.	-	5 days	On going
				65 days	

3. Strategic three year internal audit plan

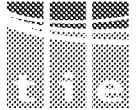


Summary of planned future activity

In developing the three year strategic plan we have considered three broad areas of activity across **tie**, namely:

- Governance – the overall awareness of internal control across **tie** including clarity of policies and procedures, governance structures and risk management processes;
- Tram project – given the significance of the tram project, we have designed our plans to provide coverage of the core activity across the project; and
- Support processes – provision of support into the project and across the organisation including the development of future projects.

Business area	Core Process	2008/09	2009/10	2010/11
Governance	Organisational structure			
	Policies and procedures			
	Risk management			
TRAM project	Project and programme reporting			
	Forecasting and monitoring (cost and programme)			
	Contract negotiation and change management			
	Valuation, payment, certification and claims			
	Quality control and milestone certification			
	Health and Safety			
	Commissioning and handover			
	Interface with other projects			
	Stakeholder management			
Support services	Financial management			
	Information Technology			
	Human resources			
	Business development and Portfolio management			
Follow up and contract administration				



3. Strategic three year internal audit plan

Proposed activity in 2009/10

During 2009/10 we would expect to undertake a similar level of input of around 65-75 days covering the following areas:

Governance

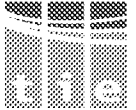
- Communication of policy and procedures to staff and contractors. Specific focus to be placed on the extent to which contractors are made aware of policy and procedures, as well as mechanisms utilised by tie to ensure contractors adhere to the necessary policies and procedures.

Tram project

- Review the mechanisms used to monitor and forecast cost and programme. Work in this area will consider use of the Primavera programming tool, and the extent to which this is integrated into the programming and reporting activity of the INFRACO contractor. We shall also review the consistency of information between Primavera and milestone certificates.
- We will continue our work on the INFRACO works through 2008/09, with a continued focus on commercial arrangements as well as the mechanics behind change management, valuations, certification, payment and the claims management processes. Work in 2009/10 will consider the extent to which integration between the contractor and tie personnel has improved.
- During 2009/10, we will review health and safety governance arrangements across the Tram project, including the integrity of health and safety reporting and the nature of health and safety auditing undertaken across the project.
- As commissioning is scheduled to commence in January 2010, we will consider the mechanisms employed by tie to approve handover to the operator including the process for recruiting and training drivers.

Support processes

- Review of budgeting process and follow up on high level financial control environment.
- Given the extent to which the long term future of tie is predicated on the ability to take forward future transport projects, we will consider the mechanisms to identify and progress further projects with appropriate agencies, including an assessment of the mechanisms within tie to confirm the financial viability and approval of phase 1b of the tram project.
- In respect of the IT environment, we will undertake a review of the IT integration with contractors and associated controls in respect of access and security. We will also consider business continuity management arrangements during 2009/10.
- Our work around human resources will consider mechanisms to support the attraction and retention of staff, as well as the performance appraisal process and operation of the remuneration committee.



3. Strategic three year internal audit plan

Proposed activity in 2010/11

As in previous years, we would expect the level of internal audit input to remain steady at around 65-75 days with coverage in the following areas:

Governance

- Review of the tie organisational structure. To consider appropriateness of the structure in relation to activity across the organisation in 2010/11 (Phase 1b and Line 3 plus other transport infrastructure vs delivery of phase 1a).

Tram project

- Review the appropriateness of project reporting measures as the project moves through the testing and commissioning phase to handover and service operations.
- Continued focus on commercial arrangements across the project, with specific focus on the administration of applications for payment and monitoring of outturn costs as the project nears completion.
- As system testing commences and trams begin to operate across the city, we will review the process for approving the system for operation with due regard to the health and safety risks associated with an operational tram network.
- We will consider relationship management with key stakeholders to ensure responsibilities for handover are understood by all parties concerned, as well as the mechanics of communicating progress to the public in an election year.

Support processes

- Review of core financial controls and integrity of financial ledgers and chart of accounts.
- Review the process to progress future transport infrastructure projects through Transport Scotland and the City of Edinburgh Council. Review robustness of business case applications.

Appendix 1 – Internal audit rate card



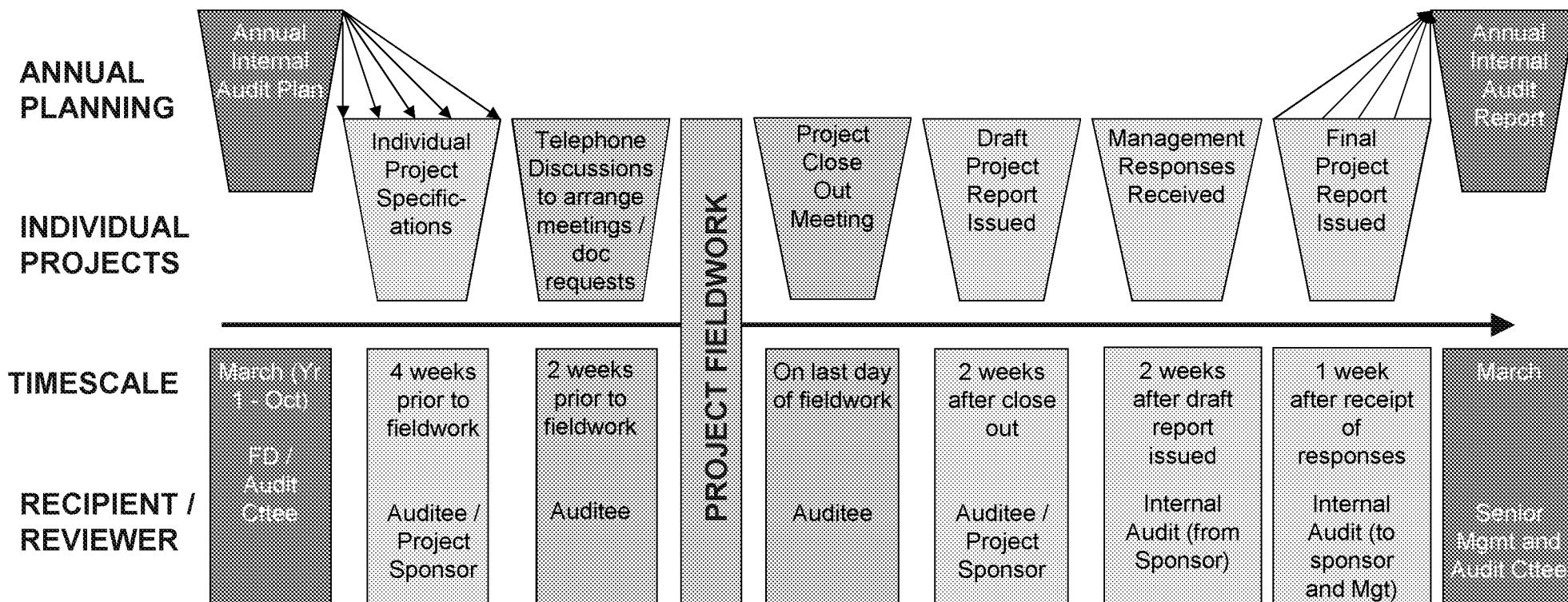
The table below outlines the daily rate by grade of staff in respect of our internal audit work in 2008/09. Based on the plan highlighted at page 2, we have considered the staff mix required across each project when determining the indicative annual cost to tie. The fees quoted do not include VAT or out of pocket expenses.

Indicative fees by grade of staff	Daily Rate (£)	Year 1 (2008/09)	
		Proposed Days	Indicative Total Fees (£)
Partner	2,000	5	10,000
Director	1,400	10	14,000
Specialist Resource - Assistant Director	1,800	15	27,000
Manager	800	24	19,000*
Assistant Manager	640	11	7,000*
TOTAL	-	65	77,000

* rounded down to nearest £'000

Appendix 2 – Internal audit protocols

The diagram below provides an overview of the proposed internal audit protocols to be followed. Once the annual plan for any given year has been approved by the audit committee, we will agree appropriate sponsors for each project within the internal audit plan. In conjunction with the project sponsor, we will then develop detailed project specifications confirming the scope and timing of our work for sign off. On conclusion of all fieldwork, a meeting will be held with the project sponsor to discuss the findings from the internal audit. Following this, a draft report will be issued including the findings from our work and associated recommendations to which management will be asked to formally respond. On receipt of management responses, internal audit will convert the report into a final version and issue to the project sponsor and appropriate members of the management team.



Appendix 3 – Statement of responsibility

This report and the work connected therewith are subject to the Terms and Conditions of the engagement letter between tie limited and Deloitte & Touche LLP. The report is produced solely for the use of tie limited. Its contents should not be quoted or referred to in whole or in part without our prior written consent. The matters contained in the report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive record of all the errors or weaknesses that exist, or improvements made by management. Deloitte & Touche LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose. This report is for the sole use of management and should not be released to any third party.

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