Audit and Assurance Committee

TRANSPORT
FOR LONDON
EVERY JOURNEY MATTERS

Date: 15 March 2023

Item: Risk and Assurance Quarter 3 Report 2022/23

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This paper will be considered in public

1   Summary

1.1   This report informs the Committee of the work completed by the Risk and Assurance Directorate during Quarter 3 of 2022/23 (18 Sepetmber to 10 December 2022) (Q3), the work in progress and planned to start, and other information about the Directorate's activities.

1.2   A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2   Recommendation

2.1   **The Committee is asked to note the report and the exempt supplementary information on Part 2 of the agenda and the Chair, in consultation with the Members available, approve the updated Audit Plan set out in Appendix 1.**

3   Director Update

3.1   This is the third quarterly report for financial year 2022/23 to the Committee highlighting the activities of five of the six teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Quality, Safety and Security Assurance (QSSA); Project Assurance (PA); and Counter-fraud and Corruption (CFC). Detailed Elizabeth line and TTL Properties Limited (TTLP) assurance work is covered elsewhere on the agenda.

3.2   The Audit Plan has been updated to reflect the new list of Enterprise Risks and all assurance work presented to Committees and Panels has now been mapped against these risks. The Audit Plan for the first six months of 2023/24 is at Appendix 1 and more detail is contained later in this paper. The Committee is asked to approve the updated Audit Plan.

3.3 In PA reviews during Q3 a lack of staff resources continues to be the most prevalent theme arising that is impacting on project delivery. There is however evidence that this situation is improving. PA is considering undertaking a number of in-depth reviews of resourcing in key business areas to determine how robustly the issue is being managed. The PA team also continues to place significant focus on reviewing the strength of business cases and supporting the business in the programme of work to elevate the standard of these key documents.

3.4 The Head of Counter-fraud and Corruption is a member of the UK Rail Fraud forum. The group consists of fraud specialists from all Train Operating Companies across the UK and the Rail Delivery Group. It now meets every two months to share intelligence and information about fraud and corruption, and shares best practice to prevent fraud against the industry. The forum is supported by an elected Executive Committee, and a Terms of Reference and strategy for tacking financial crime has been agreed.

3.5 The Greater London Authority (GLA) Risk and Assurance Collaboration Professional Community was set up in June 2022 and is chaired by the Director of Risk and Assurance. The aim is to share best practice and lessons learnt in the provision of assurance services across the GLA Group and to identify opportunities for further collaboration. Separate topic forums have been established for Fraud, Internal Audit, Project Assurance and Enterprise Risk, with meetings taking place quarterly and organisation of the forums shared across the GLA Group. The individual forums have held two meetings to date (September 2022 and December 2022). The first six-monthly forum, which combines all four assurance topics, was held on 23 January 2023 and was an opportunity to hear from each of the individual forums. The feedback has been extremely positive, with members finding it useful having a forum to discuss common issues.

4   Enterprise Risk Management

4.1 The following Level 0 (L0) Enterprise Risk workshops were facilitated by the team in Q3:

(a) Attraction, retention, wellbeing and health of our employees (ER2);

(b) Environment including climate adaptation (ER3); and

(c) Procurement including supply chain (ER5).

4.2 Work continues to progress on revising the risk appetite process and the outputs will be presented to the Committee when that work is completed.

4.3 Work has started on developing Level 1 risk aligning them to Vision and Values Roadmaps. Several sessions are planned with Chief Officer areas, the first of which was held with the Chief Operating Officer's Directorate in January 2023.

4.4 A list of the L0 risks is included in Appendix 2.

5 Audit and Assurance

5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model:

(a) First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/controls;

(b) Second line of defence – typically assurance reviews, audit and inspection regimes carried out by teams separate from those responsible for managing the risks/controls, but reporting through the TfL management hierarchy;

(c) Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to the Executive Committee, this Committee and other Committees and Panels.

5.2 Figure 1 below indicates the assurance activity for Q3 by team/group mapped against the Enterprise Risks (if a risk is not listed this means that no work has been completed against it during the year so far).

Figure 1 – Assurance activity mapped to Enterprise Risk

Internal Audit

5.3 Internal Audit provide third line assurance through independent, objective and evidence-based audits. A full list of audit reports issued in Q3 is at Appendix 3, audits in progress at Appendix 4 and work planned to start in Q4 of 2022/23 (11 December 2022 to 31 March 2023) (Q4) at Appendix 5, the changes to the Audit Plan in Q3 is at Appendix 6, and the Internal Audit Q3 summary is included as Appendix 7.

5.4 The Internal Audit Q3 summary, included as Appendix 7, includes highlights from work completed during the quarter. It also provides an overview of the delivery of the Audit Plan, a summary of the reports issued, conclusions and information on overdue audit actions. At the end of Q3 we had completed 53 per cent of the plan but there were a number of reviews in reporting at the end of the quarter. Historically we issue significantly more reports in Q4 and our projections show that we are on track to hit our year end target of 85 per cent.

5.5 Eight audit reviews were completed in Q3. Seven audit reports and one memo were issued (details are set out in Appendix 3). The business has accepted the

findings for all audits and is working to close them out to agreed timescales. Of the seven audit reports issued, two were rated as 'Poorly Controlled' and four rated as 'Requires Improvement'.

5.6   One 'Poorly Controlled' rated audit sat in the Technology and Data area covering Information Technology Disaster Recovery and Operational Resilience. The other was in Financial Resilience and related to the Development of the New Assets under Construction process.

5.7   There were five no changes to the Audit Plan during Q3, two deferrals and three cancellations. These are detailed at Appendix 6.

Management Actions

5.8   The team monitors the completion of all Internal Audit management actions and confirms whether management has adequately addressed them. We report by Directorate on the percentage of actions closed on time over the past six periods. Appendix 7 provides additional information relating to action management trends over the last six rolling periods as well as information on overdue actions at the end of Q3. Progress towards closing out actions is discussed with stakeholders regularly and there are valid reasons for those that are overdue. The team are actively working with the business to close any actions that are over 100 days overdue. The Director of Risk and Assurance also discusses overdue actions with Chief Officers in her quarterly meetings with them.

Internal Audit Plan Phase 1 2023/24

5.9   The Audit Plan has been updated for the work we intend to carry out in the first six months of the 2023/24 finacial year. This is attached as Appendix 1. Also included is an indicative plan for the second six months of 2023/24. This is subject to regular review and provides the level of flexibility to meet any changes to the organisation's assurance needs. The 'bubble diagram' at the end of the appendix provides an overview of all our proposed activity over the next 18 months. The detailed plan also shows the areas where there will be second line of defence audit or review activity carried out by other assurance teams, both within Risk and Assurance and the Independent Investment Programme Advisory Group (IIPAG).

5.10   However, there are recruitment campaigns for Information Technology and generalist auditors. If successful it will result in an increase in the number of audits we can deliver and the plan will be revised to reflect this.

Mayoral Directions

5.11   The Mayor is permitted to issue to TfL general directions as to the manner in which TfL is to exercise its functions, or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

5.12   The Mayor makes Mayoral Directions through Mayoral Decisions, which are published on the GLA's Decisions Database. A summary of current Mayoral Directions to TfL is maintained on the How we are governed page on our website.

Mayoral Directions to TfL are reported to the relevant Board Committees for discussion as soon as possible after they are received by TfL or published. Mayoral Directions are also reported to this Committee so it can consider if the annual audit plan has appropriate audit resource to provide assurance on TfL's work in implementing Mayoral Directions.

5.13 There was one Mayoral Direction that should have been reported in Quarter 2 and three new Mayoral Directions during Q3.

MD3028 02/09/22	**September 2022 fares revision** The Mayor directed TfL to implement from 4 September 2022 an increase in the fee for obtaining an Oyster card from £5 to £7 and to make this fee non-refundable and to apply a peak fare to all journeys to/from Heathrow that include Zone 1 travel.
MD3014 17/01/23	**Permanent changes to free travel arrangements for older Londoners** The Mayor approved revisions to the Older Persons' Freedom Pass and the 60+ London Oyster photocard validity to permanently remove free travel between the hours of 4:30am and 9:00am on weekdays (excluding bank holidays) and directed TfL to implement the changes on and from 18 January 2023. The time restriction had been in place temporarily since 15 June 2020 (under MD2642). The change was introduced to meet conditions attached to Government funding settlements that were required to support TfL due to the impact of the coronavirus pandemic on TfL's finances. The change does not affect holders of the Disabled Persons' Freedom Pass on either TfL or National Rail services, where current acceptance would continue unchanged.
MD3083 26/01/23 MD3104 28/02/23	**March 2023 Fare Changes** The funding settlement with Government, dated 30 August 2022, assumed that the Mayor would increase fares for 2023/24 in line with increases in National Rail fares and provided that, if he did not do this, this would affect TfL's funding. Government decided to increase National Rail fares by 5.9 per cent for 2023/24. The Mayor approved an overall average increase on TfL fares under his control of 5.9 per cent. The Mayor directed TfL to implement the fare changes from 5 March 2023. The original Mayoral Direction, MD3083, was replaced with MD3104 to correct administrative errors in the original Direction, which had resulted in some fares being stated incorrectly. The corrections did not change the overall average increase in fares.

MD3079 02/02/23	**Low-Paid Transport Workers' Concession Scheme**
	The Mayor directed TfL to introduce, implement and administer the Low-Paid Transport Workers' Concession Scheme as soon as practicable from April 2023. The travel concession will provide free travel on public passenger transport services on the TfL network to employees of TfL's directly contracted suppliers who are paid no more than 10 per cent above the London Living Wage, as well as to workers employed on this same level of pay by TfL's contracted public transport operators in cleaning roles dedicated to TfL's services.

Quality, Safety and Security Assurance

5.14 The QSSA team carries out second line of defence audits, primarily in relation to health and safety and engineering management system compliance, and compliance with Payment Card Industry Data Security Standards (part of the security assurance work). Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.

5.15 A summary of work carried out by QSSA in Q3 is included as Appendix 8.

5.16 A total of 20 QSSA audits were completed in Q3. At the end of Q3 56 per cent of the annual plan is complete and the team is projected to achieve the 85 per cent target for the year. All issued audits have agreed actions that are tracked to completion.

5.17 Three audits were concluded as 'Poorly Controlled', all had agreed recommendations and action plans in place:

(a) London Underground (LU) Environmental Risk Assessment: It could not be assured that risk assessments had been completed to identify relevant environmental risks, the associated controls and applicable regulations. A non-compliance with the Safety, Health and Environment (SHE) Management System requirements was identified relating to the management of TfL's environmental risks.

(b) Buses and Trams Environmental Risk Assessment: In Buses it could not be assured that risk assessments had been completed to identify relevant environmental risks, the associated controls and applicable regulations. Trams had a suitable and sufficient 'Aspects and Impacts Register' in place.

(c) Trams On Track Plant and Machines: A number of non-conformances in relation to the requirements set out in the Trams on track plant acceptance and testing procedures were identified. Document control issues were identified along with the interpretation and implementation of the standards.

5.18 Three audits were concluded as 'Requires Improvement' and all had agreed recommendations and action plans in place:

(a) TfL Management of New Protective Security Risks From Initiatives: There is a robust and proven project management methodology in Pathway. However, several of the security products were found to be out of date and the security content of Pathway is not mandated or a 'core' product. This increases the risk that security risks may not be accurately identified and therefore controlled.

(b) LU Maintenance Asbestos Management: Full compliance with the proactive requirements of the TfL Standard and LU Procedures have not been achieved in relation to competence and monitoring. There were limited issues regarding asbestos surveys and information management. There were no issues regarding the reactive support role undertaken by the Hazardous Materials Team for maintenance and minor works.

(c) Managing Access to Tram Infrastructure: The combination of documents and systems meant it was not always possible to assure that staff hold the required competence for the activity in advance. A risk assessment and method statement could not be located for a Works Request Form, and overdue inspections and incident investigations were highlighted. These gaps increase the risk that management system controls are not effective.

5.19 Seven audits were concluded as 'Adequately Controlled' or 'Well Controlled'. Seven Integrated System audits were undertaken and not rated (as they cover a broad range of subjects and risks which makes conclusions misleading). One audit was cancelled in Q3 in agreement with the audit sponsor: a track welding audit was prioritised over an audit of asset data migration. Three audits were deferred to the 2023/24 plan at the request of the audit sponsor until improvement works are complete before being assured. The three deferred audits were 'Patching and Vulnerability Management', 'Ransomeware Risk Management' and 'Payment Card Industry Compliance of Revenue Inspection Devices'.

5.20 Audit planning for the 2023/24 plan began in Q3 and continues into Q4. The improved approach to audit planning structures QSSA assurance planning and reporting around the management system content for Engineering, Maintenance, SHE and Security. The revised approach to planning will provide a more proactive approach, ensuring the full range of management system controls are considered and reactive elements are less prominent.

5.21 There had been an increase in actions closed on time in Q3 with 35-40 per cent of actions closed on time. There has been a small increase in the number of actions granted extensions in the most recent period in accordance with our procedure, although the average percentage of actions extended remains constant across Quarter 2 and Q3 at 18 per cent. We continue to have increased focus on closing actions in collaboration with the management teams and Chief Officers which has been effective in reducing the number of overdue actions, particularly the significantly overdue actions over 100 days.

Project Assurance

5.22 The PA team carries out assurance reviews of projects and programmes across TfL's Investment Programme, with individual projects selected for review following a risk-based assessment. Generally, projects with an Estimated Final Cost over £50m are also subject to (third line) input from IIPAG. However, IIPAG's agreed work-bank is determined by the project's risk profile, which includes some projects less than £50m, and not all sub-programmes are reviewed. The IIPAG Quarterly Report is included elsewhere on the agenda. Reports from PA reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.

5.23 The team also conducts reviews of the sub-programmes to inform annual requests for Authority at the Programmes and Investment Committee.

5.24 PA reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The team follows up on all recommendations to ensure they have been addressed and reports on those that are overdue to the Programmes and Investment Committee.

5.25 Two sub-programme reviews were undertaken during the quarter, with IIPAG involved in both. In the same timeframe, seven project assurance reviews were undertaken, with IIPAG involved in both of these. These reviews gave rise to 49 recommendations being made by PA including two critical issues. IIPAG made 10 recommendations including one critical issue. The critical issues were on Tram Fleet Replacement and Kingston Cromwell Road Bus Station reconstruction projects. The three critical issues all related to amendments being required to the business cases for these projects.

5.26 A summary of the work completed by PA in Q3 is included as Appendix 9.

Customer Feedback

5.27 QSSA issued 15 customer feedback questionnaires in Q3, 14 of which were returned (93.3 per cent) with an average score of 100 per cent satisfied, the other response has been chased. Internal Audit issued 13 questionnaires and nine were returned (69 per cent) with an average score of 86.4 per cent. A summary of all customer feedback forms is included as Appendix 10.

6   Counter-fraud and Corruption

6.1 The CFC team carries out investigations in all cases of suspected and alleged fraud. They also carry out a proactive programme of fraud awareness, prevention and detection activities designed to minimise TfL's exposure to fraud risk.

6.2 A summary of the team's activities during Q3, including information on significant closed fraud investigations, is included as Appendix 11.

6.3 Of the three cases closed in Q3, one case was referred to line management for informal advice and guidance to be issued, another was reported to Action Fraud and the other case, that had previously been reported to law enforcement, resulted in the acquittal of an ex-employee following a jury trial.

6.4 The team continues to raise awareness of fraud and corruption across TfL through targeted sessions, presentations and other communications. In November 2022, members of the team hosted a four-day Fraud Awareness event to run in parallel with National Fraud Awareness Week. Digital screens at main office buildings were used to display fraud awareness material and a short video highlighting the work of the the team. In December 2022, a Risk and Assurance advent calendar was released across TfL, containing Christmas themed advisory messages from all teams within the Risk and Assurance Directorate.

6.5 Details of significant new and ongoing fraud investigations during Q3 are included in the paper on Part 2 of the agenda.

7 Resources

7.1 At the end of Q3 the Directorate was carrying eight vacancies (excluding the three roles we are not backfilling for secondments). The current vacancies are five in Internal Audit, two in CFC and one in Business Support.

7.2 In line with the TfL position on only critical recruitment going ahead at this time, we have been reviewing impacts and submitting requests to start recruitment on a case by case basis as necessary. As such we are now in the process of actively recruiting five of these roles (four in Internal Audit and one in CFC) with other approvals being sought in Q4 as appropriate.

7.3 The recruitment of Technology Information Security (TIS) auditors continues to be very challenging so a development opportunity was offered within Internal Audit in 2021 to train as a TIS Auditor. In December 2022 the auditor successfully achieved the Certified Information Security Auditor qualification while in this development role and has been appointed into a permanent TIS auditor position.

7.4 Where suitable we also use secondments to develop our staff. Currently we have seven people on secondments of which five are within Risk and Assurance and two are outside the Directorate.

7.5 We are proceeding with the recruitment for two apprentice roles in Internal Audit and were present at the TfL apprentice recruitment fair on 17 February 2023 to promote the scheme.

8 Control Environment Trend Indicators

8.1 The Q3 indicators are included as Appendix 12.

List of appendices to this report:

Appendix 1: Internal Audit Plan – April 2023 to September 2023 (Phase 1)
Appendix 2: L0 Enterprise Risk and status
Appendix 3: Internal Audit reports issued in Q3 2022/23
Appendix 4: Work in Progress at the end of Q3 2022/23
Appendix 5: Work planned to start in Q4 2022/23
Appendix 6: Changes to the Plan in Q3 2022/23
Appendix 7: Internal Audit Q3 summary

Appendix 8: Quality, Safety and Security Assurance Audit Q3 summary
Appendix 9: Project Assurance Q3 summary
Appendix 10: Customer Feedback Q3 summary
Appendix 11: Counter-Fraud and Corruption Q3 summary
Appendix 12: Control Environment Trend Indicators

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

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