

Date: 1 December 2021

Item: Risk and Assurance Quarter 2 Report 2021/22

This paper will be considered in public

1 Summary

- 1.1 The purpose of this report is to inform the Committee of the work completed by the Risk and Assurance Directorate during Quarter 2 of 2021/22 (Q2), 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 exempt supplemental information that is exempt from publication by virtue of paragraphs 3, 5 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 supplemental information on Part 2 of the agenda.**

3 Director Update

- 3.1 This is the second quarterly report for 2021/22 to the Committee highlighting the activities of the five teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Integrated Assurance; Project Assurance; and Counter-fraud and Corruption.
- 3.2 In this quarter the audit work is behind programme due to the plan for Integrated Assurance being back ended. We have recruited two additional Integrated Assurance Auditors in the team which will help recover the programme (more detail is in section 5.14 below). At the end of Q2, 35 per cent of the Internal Audit plan had been delivered due an Auditor on secondment in the Integrated Assurance team (who then resigned) and the departure of the Technology Information and Security Auditor. Furthermore, there have been a number of new audits added to the plan thereby increasing the total number of audits undertaken. We are currently in discussions with the business to reprioritise audits. Changes to the plan will be reported in the Quarter 3 of 2021/22 (Q3) paper and will reflect this exercise and we are confident that the recovery plan will get the plan back on target.

- 3.3 Work is ongoing on a number of initiatives to improve the effectiveness of the Directorate. The collaboration working group has identified some quick wins in relation to how communication across the Directorate is delivered with the aim of facilitating two way communication between the leadership team and the staff. The new quarterly Executive Committee Risk and Assurance report was well received and will now be a standing item on the agenda of those meetings.
- 3.4 Work is continuing on identifying themes and issues to help inform how we plan our work and inform the controls and mitigations on Enterprise and Level 1 Risks. Trials are underway to closer integrate the risk and assurance processes to enable improved risk-based assurance and confirm the second and third line opinion on controls to mitigate risk.
- 3.5 Good progress has also been made with the Safety, Health and Environment (SHE) Directorate on strengthening the integration of second line assurance work between our two Directorates and a joint paper was recently submitted to the Safety, Sustainability and Human Resources Panel to explain how that work will be taken forward. Further progress updates will be provided to the Panel.
- 3.6 Assurance of the Elizabeth line has now been fully integrated into the Directorate and is working effectively across second and third line activities. That work is covered elsewhere on the agenda.
- 3.7 A suspect, convicted of conspiracy to defraud TfL by supplying concessionary Oyster cards to ineligible members of the public through social media, was recently sentenced to nine months imprisonment. This is the seventh successful conviction of individual suspects as part of this protracted investigation (British Transport Police Operation Jetstream) into fraud within TfL concessionary Oyster card schemes.

4 Enterprise Risk Management

- 4.1 The following Level 0 Enterprise Risks reviews were facilitated by the team in the last quarter and the outcomes will now go forward to the relevant Panels and Committees according to the agreed schedule:
- (a) Changes in customer demand (ER9);
 - (b) Governance and Controls Suitability (ER13); and
 - (c) Opening of the Elizabeth Line (ER14).
- 4.2 The top six strategic Level 1 risks for the Elizabeth line have been agreed and workshops arranged to develop these with two completed. Development of these risks is planned to be completed by December 2021.
- 4.3 The Major Projects Directorate has produced a list of strategic Level 1 risks. Workshops will be held to develop these further with full risk assessments and mitigation strategies.

4.4 We are working with the business to identify where climate change may either be a cause or a consequence to existing risks, which will enable us to better understand, quantify and mitigate the impact of climate change consistently across all parts of TfL. This will support the requirements set out in the Task Force on Climate-related Financial Disclosures reporting guidelines.

4.5 A list of the Level 0 risks is included in Appendix 1.

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 audit and inspection regimes carried out by teams separate from those responsible for managing the risks/controls, but reporting through the TfL management hierarchy; and
- (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 Within the Risk and Assurance Directorate, the Internal Audit team provides third line assurance, whilst the Integrated Assurance and Project Assurance teams provide second line assurance. Further information regarding the work of these teams during Q2 is set out below.

5.3 The table below maps the outcomes of 2021/22 audit and project assurance reviews carried out by the teams in Risk and Assurance to date, up to the end of Q2 against the TfL Enterprise Risks. (If a risk is not listed, this means that no work has been completed against it during the year so far).

	2nd line assurance	Total	3rd line assurance	Total
ER01 Major health, safety or environmental incident or crisis		20		1
ER02 Protecting the wellbeing of our employees				1
ER03 Major service disruption				1
ER04 Major security incident		4		1
ER07 Financial sustainability				8
ER08 Delivery of key projects and programmes		15		
ER12 Asset condition unable to support TfL outcomes		4		
ER13 Governance and controls suitability				4
ER14 Opening of the Elizabeth Line				5

Audit rating/PA review outcome

	Poorly controlled
	Requires improvement/critical recommendations
	Adequately controlled/recommendations
	Well controlled
	Memo or consultancy

Internal Audit

- 5.4 The Internal Audit plan forms part of the Integrated Assurance plan that the Committee approved on 17 March 2021.
- 5.5 A full list of audit reports issued during Q2 is included as Appendix 2. Audits in progress at the end of Q2 is included as Appendix 3, work planned to start in Q3 is included as Appendix 4, and details of changes to the audit plan is included as Appendix 5.
- 5.6 The Internal Audit Q2 summary, included as Appendix 6, 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 and conclusions and information on overdue audit actions.
- 5.7 We have commenced our annual audit planning for 2022/23 and are in discussions with the business to develop the plan.

Mayoral Directions

- 5.8 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes.
- 5.9 There have been no new directions since the last meeting of the Committee.

Management Actions

- 5.10 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 6 provides additional information relating to action management trends over the last six periods.
- 5.11 This Appendix also includes information on overdue actions at the end of Q2. There were four actions arising from Internal Audits more than 60 days overdue at that date.

Integrated Assurance

- 5.12 The Integrated Assurance team carries out second line of defence audits, primarily in relation to health and safety and engineering compliance, and compliance with Payment Card Industry Data Security Standard. Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.
- 5.13 A summary of work carried out by Integrated Assurance in Q2 is included as Appendix 7.
- 5.14 Progress against the annual audit plan is currently 25 per cent complete at halfway through the year. It was planned to undertake fewer audits in Quarters 1 and 2 due to two planned retirements and subsequent recruitment, with a greater number of audits in Quarters 3 and 4. Additionally, there are proportionately more

shorter audits in Quarters 3 and 4 which will have a positive impact on the measure in the coming months.

5.15 Six audits have been cancelled, five of these were Network and Information System Regulations audits and have been cancelled in agreement with the Chief Information Security Officer due to a change in assurance strategy: we are undertaking fewer audits focussed on higher level governance rather than lower level compliance. A signals maintenance audit has been cancelled as it would duplicate existing assurance from within the last 12 months. All changes to the audit plan are agreed with the sponsor and recorded on our change control log.

5.16 There were two audits concluded as 'poorly controlled' in Q2:

(a) 'Commercial Development Estates Management HSE Compliance' - This audit was requested by the Commercial Development management team to assess compliance with their local management system procedures. The audit concluded roles and responsibilities were not always clearly defined in management procedures and/or all controls consistently implemented. There was a risk of potential regulatory non-compliances relating to legionella, fire, asbestos, gas and electrical safety inspections. A programme of actions has been agreed with the Commercial Development team and work is in progress to deliver the actions by the end of 2021.

(b) 'Management of LU station tenants fire risk assessments' - This audit was requested by the Head of Profession (Building Services) to assess how the Retail Property Team and Station Area Managers are assured of compliance with the Regulatory Reform (Fire Safety) Order 2005 in relation to fire risk assessment among London Underground (LU) station tenants. Compliance with the fire risk assessment requirements of the Order and TfL procedures and guidance could not be fully demonstrated. The availability and quality of station tenants' fire risk assessments, and the inadequate monitoring and assurance arrangements meant LU is not sufficiently aware of the risk from station tenants in order to manage the overall fire risk. An improvement programme has been developed with SHE, Engineering, LU and the Property team and is being tracked.

5.17 In Quarter 1 and 2 Risk and Assurance has improved the reporting of overdue actions to TfL Directors. This is noted to have had a positive impact in reducing the number of long-term overdue actions (over 60 days) from 12 to eight.

Project Assurance

5.18 The Project Assurance 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 the Independent Investment Programme Advisory Group (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 Project Assurance reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.

- 5.19 Project Assurance also conducts reviews of the sub-programmes to inform annual requests for Authority at the Programmes and Investment Committee.
- 5.20 Project Assurance reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The Project Assurance 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.
- 5.21 Four sub-programme reviews were undertaken during the quarter, with IIPAG involved in all four reviews. In the same time frame 14 project assurance reviews were undertaken, with IIPAG involved in three of these. These reviews gave rise to a total of 69 recommendations being made, of which six were considered to be critical issues.
- 5.22 A summary of the work completed by the Project Assurance team in Q2 is included as Appendix 8.

Customer Feedback

- 5.23 There were eight customer feedback forms (CFFs) returned in Q2. Integrated Assurance issued seven questionnaires of which two were returned (29 per cent). Internal Audit issued 12 questionnaires of which six were returned (50 per cent). However, satisfaction rates for both audit teams remains above 90 per cent. A summary of customer feedback forms is included as Appendix 9.
- 5.24 We have made some changes to the CFF process to try and increase the return rate and will report on the effect this has had on the response rate in the Quarter 4 paper.

6 Counter-fraud and Corruption

- 6.1 The Counter-fraud and Corruption (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 Q2, including information on significant closed fraud investigations, is included as Appendix 10.
- 6.3 Of the 15 cases closed in Q2, six resulted in internal disciplinary action being taken against TfL employees, seven were dealt with through referrals to law enforcement agencies and two cases resulted in no action being taken.
- 6.4 The CFC team continues to raise awareness of fraud and corruption across TfL through targeted sessions and presentations. During Q2, members of the team attended the periodic Business Services meeting to provide a fraud awareness presentation to 190 attendees. The presentation was designed to provide an insight into the types of fraud that could be committed against TfL and by whom, examples of missed opportunities to identify fraudulent activity and how to report fraud. Attendees were also briefed on the most common fraud 'scams' to affect people in their private lives and some useful tips and guidance on how to prevent such frauds.

6.5 Details of significant new and ongoing fraud investigations during Q2 is included in the paper on Part 2 of the agenda.

7 Resources

7.1 At the beginning of Q2 the Directorate was carrying 11 vacancies: two in Project Assurance including the Head of Project Assurance, three in Internal Audit, three in Integrated Assurance, and three support roles including a data analyst role. In Q2 there was one leaver and three new joiners, two in Project Assurance and one Integrated Assurance Auditor.

7.2 Further recruitment activity in the quarter has led to a number of offers being made which will lead to a number of the vacant roles being filled in the next two quarters including the Head of Internal Audit.

8 Control Environment Trend Indicators

8.1 The Q2 indicators are included as Appendix 11.

List of appendices to this report:

Appendix 1: Level 0 and Level 1 Risks

Appendix 2: Internal Audit reports issued in Q2 2021/22

Appendix 3: Work in Progress at the end of Q2 2021/22

Appendix 4: Work planned for Q3 2021/22

Appendix 5: Cancelled/ deferred/new audits from 2021/22 audit plan

Appendix 6: Internal Audit Q2 summary

Appendix 7: Integrated Assurance Q2 summary

Appendix 8: Project Assurance Q2 summary

Appendix 9: Customer Feedback Q2 summary

Appendix 10: Counter-Fraud and Corruption Q2 summary

Appendix 11: Control Environment Trend Indicators

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

List of Background Papers:

None

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