

Date: 16 March 2022

Item: Risk and Assurance Quarter 3 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 3 of 2021/22 (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 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 third quarterly report for 2021/22 to the Committee highlighting the activities of five of the six teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Integrated Assurance; Project Assurance; and Counter-fraud and Corruption. Elizabeth line assurance work is covered elsewhere on the agenda.
- 3.2 In Quarter 4 of 2021/22 (Q4) the Integrated Assurance team will change its name to 'Quality, Safety and Security Assurance'. Feedback from stakeholders was that 'Integrated Assurance' was not self-explanatory and not widely understood across the business, nor did the team identify with and take ownership of the team name. 'Quality, Safety and Security Assurance' provides a more accurate description of the work the team does, the subjects addressed and the key stakeholders we work with. The name change does not alter the work the team does, the methodology or the standards to which they work and it has been discussed and agreed with all key internal stakeholders.

- 3.3 In Q3 audit work continues to be behind programme with Internal Audit at 39 per cent and Integrated Assurance at 50 per cent. Details of the reasons for this are set out below. The expectation is that Internal Audit will reach 70 per cent of their plan and Integrated Assurance 85 per cent by the end of the financial year.
- 3.4 Audit planning has been taking place in Internal Audit and Integrated Assurance. The Integrated Assurance Plan is covered elsewhere on the agenda. The plan is risk based and has been made more robust and will be updated on a rolling basis.
- 3.5 The team provided key papers to support the new Executive Committee Group Performance, Risk and Assurance meeting. There was a good discussion on the general papers with helpful guidance on the draft agenda for the Executive Committee/Board Enterprise Risk informal discussion session that will take place in spring 2022. Further work to support that meeting is now underway.
- 3.6 Active Risk Manager (ARM), the risk management software tool used in TfL, has been successfully upgraded. Work is in progress to explore additional functionality that may help simplify the aggregation and disaggregation of Level 1 Enterprise Risks in one system rather than having separate forms and manual interventions needing to be made. This could also reduce the administrative burden for reporting and presentation of risks.
- 3.7 In Project Assurance reviews over the last year, three key themes have arisen most frequently. These are sufficiency of staff resources, development of business cases and robustness of Estimate Final Costs (EFCs). The Project Assurance team are undertaking further work to better understand these common issues and the progress being made within the business to address them. In particular, the team is undertaking a focused deep dive on the detailed reasons for inadequate EFCs and potential options for driving an improvement in this area.
- 3.8 A suspect, previously jailed for two years and eight months for conspiracy to defraud TfL by supplying concessionary Oyster cards to ineligible members of the public through social media, has been the subject of Proceeds of Crime Act confiscation proceedings, leading to the confiscation of £89,000, seized from his bank accounts. This money had been accumulated as a direct result of his criminal activities. TfL has been awarded £35,000 as compensation, which has now been paid in full.

4 Enterprise Risk Management

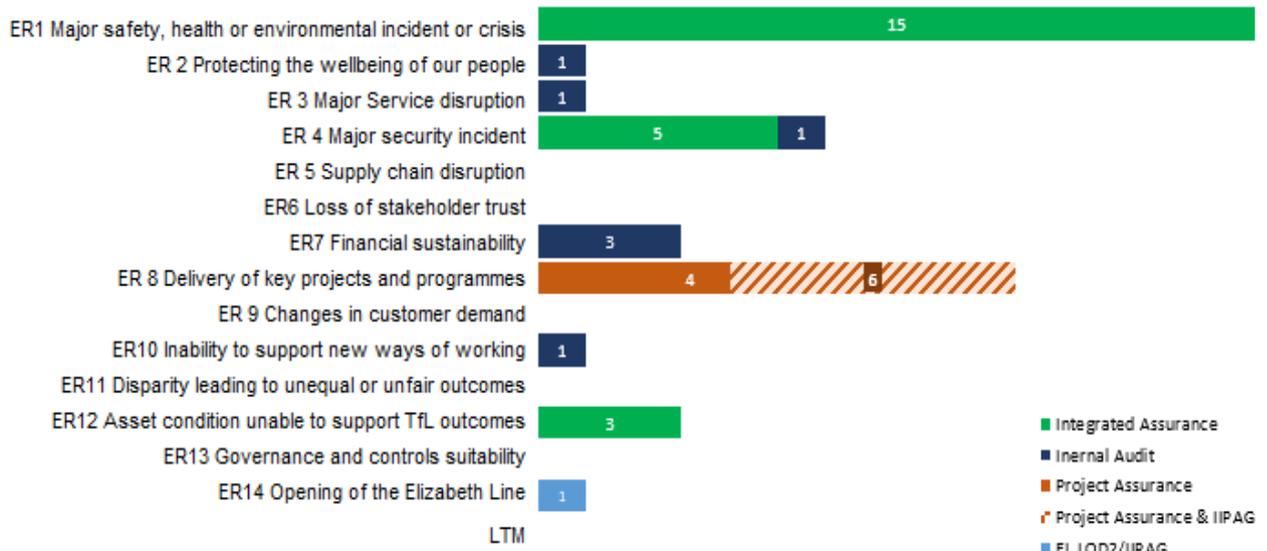
- 4.1 The following Level 0 Enterprise Risks reviews were facilitated by the team in the last quarter:
- (a) Attraction, retention and wellbeing of our employees (ER2);
 - (b) Major service disruption (ER3);
 - (c) Major security incident (ER4);
 - (d) Loss of stakeholder trust (ER6);
 - (e) Delivery of TfL key investment programmes and projects (ER8);

- (f) Governance and Controls Suitability (ER13); and
 - (g) Opening of the Elizabeth Line (ER14).
- 4.2 The outcomes of ER3, ER6, ER8 and ER13 will now go to the relevant Committees and Panels according to the agreed schedule for the current financial year.
- 4.3 The title of ER2 'Protecting the wellbeing of our employees' has changed to 'Attraction, retention and wellbeing of our employees' due to repositioning of the focus, as agreed at an Executive Committee meeting in November 2021.
- 4.4 ER13 'Governance and controls suitability' is scheduled for discussion elsewhere on the agenda for this meeting.
- 4.5 ER14 'Opening of the Elizabeth Line' has been broadened to also cover stages 5b and 5c of the programme.
- 4.6 The top six strategic Level 1 Elizabeth line risks have been developed and approved.
- 4.7 A list of current Level 0 risks and the schedule of Enterprise Risks to be reviewed by the relevant Committee or Panel for 2022/23 has been agreed. These are both 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 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; 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 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 is at Appendix 2, audits in progress at Appendix 3, work planned to start in Q4 at Appendix 4, and details of changes to the audit plan at Appendix 5. The Internal Audit Q3 summary is included as Appendix 6. Appendices 2-5 exclude Elizabeth line audits, details of which are included in the Elizabeth line Programme Assurance paper elsewhere on the agenda.
- 5.4 The carryover of 19 audits from 2021/22 has hampered the delivery of the current programme which did not have sufficient provision for this volume of work. Vacant posts and a previous hesitancy to reprofile the plan when new audits are added has also not helped. This goes some way to explain why delivery is currently at 39 per cent. However, the team are now making good progress on the remainder of the plan. Delivery is being closely monitored to limit the amount of carry over into next year. Our ambition is to deliver 70 per cent of the programme to draft/final report out with the business by year end. There are eight audits with agreed delivery dates past the end of the financial year and this has been accounted for in our 2022/24 audit plan.
- 5.5 Seven audit reviews were completed in this quarter. Three memos, one grant certification and three audit reports were issued (details are set out in Appendix 2). Of the three audit reports the work on Digital Assurance was found to be adequately controlled. The work on Tenant Billing and Climate Adaptation (planning) both required improvement. Further details are provided in Appendix 6 and the business has accepted the findings for both audits and is working to close them out.
- 5.6 In Q3 there were 10 changes to the audit plan (excluding Elizabeth line): four new audits were added, two were cancelled and there were four deferrals. Details of these are set out in Appendix 5.

Mayoral Directions

- 5.7 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.
- 5.8 There has been one recent direction to TfL, which does not affect Internal Audit activity:
- (a) Further to a funding agreement with the government dated 1 June 2021, and an extension and amendments to that June 2021 agreement made on 17 December 2021, the Mayor committed to implementing an overall increase on fares of Retail Price Index (RPI) +1 per cent. On 14 February 2022, the Mayor directed TfL to implement a Fares Revision to deliver this commitment, while ensuring the increase in fares is as affordable as possible for Londoners. The fares increase was implemented from 1 March 2022. (MD2937 on 14 February 2022)

Management Actions

- 5.9 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. The percentage of actions closed on time has improved significantly from 36 per cent at the end of Quarter 1 to 76 per cent at the end of Q3. The percentage of actions given an extension for completion is high at 65 per cent. This needs to be investigated further with a view to reducing this over the coming months.
- 5.10 Appendix 6 also includes information on overdue actions at the end of Q3. There are 16 actions arising from Internal Audits more than 60 days overdue at that date. Progress towards closing out actions is discussed with stakeholders regularly and there are valid reasons for those that are overdue.

Integrated Assurance

- 5.11 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.
- 5.12 A summary of work carried out by Integrated Assurance in Q3 is included as Appendix 7.

- 5.13 At the end of Q3 progress delivery of the Integrated Assurance audit plan stood at 50 per cent (see Appendix 7). Whilst this is still behind schedule, there has been significant progress in Q3 compared with the end of Quarter 2 when progress stood at 25 per cent. The combination of successful recruitment and a back loaded audit plan is delivering the required improvement in performance for Q3 and Q4 and we will meet the target of 85 per cent by year end.
- 5.14 Audits are only cancelled or deferred at the request of, or in agreement with the audit sponsor or risk owner with the decision rationale recorded in the audit database. In Q3 nine audits were cancelled and two deferred where assurance was no longer required or needed to be rescheduled. Five of the nine cancelled audits were due to the reintroduction of ('Plan B') Covid-19 restrictions on site visits that prevented the audits from taking place. For transparency, cancelled and deferred audits are reported in detail to the Safety, Sustainability and Human Resources Panel.
- 5.15 Ten topic audits, nine Integrated Systems audits and four payment card industry compliance audits were completed in Q3: of the 10 topic audits one audit was concluded as 'poorly controlled':
- (a) 21 735 – Surface Transport Electrical Inspections: We were requested to undertake this audit by the team responsible for electrical testing to test the robustness of their inspection and monitoring arrangements. Compliance with the requirements of British Standard 7671 (Requirements for Electrical Installations) could not be fully demonstrated. There was a gap across the asset areas in data collection, information, recording, storage and document management of reports/certificates. Actions addressing these have been accepted and the team are progressing agreed actions.
- 5.16 The Integrated Assurance team undertook a consultancy assignment for the Compliance, Policing, Operations and Security (CPOS) Directorate to provide assurance in relation to the Local Security Action plans (LSAPs) to determine if the preventative security measures designed by CPOS had been effectively implemented across TfL. The report considered the roll out of the LSAPs and provided quantitative and qualitative analysis of the results of interviews undertaken as part of the LSAP process and interviews conducted in the fieldwork for the report. The report concluded that the roll out had been successful and there were agreed logical next steps to further mature the TfL security culture. Consultancy reports are not given a conclusion as they are not compliance orientated. A briefing on the report and next steps for action were presented and agreed at the TfL Executive Security Group.
- 5.17 Across the last six periods there has been a steady trend of 64 per cent of actions closed on time. Seventeen per cent of actions were granted an extension (in compliance with our procedure), which is a decreasing trend. The combination of these two trends means there has been an increase in the number of overdue actions. As of Q4 there are currently 45 overdue actions out of a total of 85. It is noted that the actions from four audits in four different areas make up a significant proportion of the total number of overdue actions (34 out of 45). Actionees receive routine reminders from the audit team and overdue actions are escalated to the applicable management teams to try and resolve.

Project Assurance

- 5.18 The Project Assurance team carries out second line 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 EFC 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 Three sub-programme reviews were undertaken during the quarter, with IIPAG involved in all three reviews. In the same time frame seven project assurance reviews were undertaken, with IIPAG involved in three of these. These reviews gave rise to 38 recommendations being made by Project Assurance, of which four were considered to be critical issues, with IIPAG making five recommendations of which none were critical. All recommendations and critical issues were accepted by the teams involved and are being actioned to an agreed timeline.
- 5.22 A summary of the work completed by the Project Assurance team in Q3 is included as Appendix 8.

Customer Feedback

- 5.23 Integrated Assurance issued 14 questionnaires of which nine were returned (64 per cent). Satisfaction rates for Integrated Assurance remains above 90 per cent. A summary of their customer feedback forms is included as Appendix 9.
- 5.24 Internal Audit issued four questionnaires of which none were returned. This highlights issues about the numbers of feedback forms being sent out and secondly why they are not being returned. This is something that is being investigated this quarter and feedback will be given in the Q4 report on this matter

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 Q3, including information on significant closed fraud investigations, is included as Appendix 10.

- 6.3 Of the four cases closed in Q3, three resulted in internal disciplinary action being taken against TfL employees and one was dealt with through a referral to Action Fraud.
- 6.4 The CFC team continues to raise awareness of fraud and corruption across TfL through targeted sessions and presentations. During Q3, members of the team provided a fraud awareness presentation to colleagues from the London Transport Museum (80+ attendees). The presentation was designed to focus on the risk of fraud against charities, particularly through impersonation fraud and the financial and reputational impact fraud has on the sector.
- 6.5 Details of significant new and ongoing fraud investigations during Q3 is 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: three in Internal Audit, one in Project Assurance, one in Integrated Assurance, and three support roles including a Fraud data analyst role.
- 7.2 All recruitment activity in the Directorate is on hold in line with the TfL position on only critical recruitment going ahead at this time. We are managing across the teams but regularly reviewing impacts and will submit requests to restart recruitment on a case by case basis as necessary.

8 Control Environment Trend Indicators

- 8.1 The Q3 indicators are included as Appendix 11.

List of appendices to this report:

Appendix 1: Level 0 Risks & Enterprise Risk Schedule 2022-23
Appendix 2: Internal Audit reports issued in Q3 2021/22
Appendix 3: Work in Progress at the end of Q3 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 Q3 summary
Appendix 7: Integrated Assurance Q3 summary
Appendix 8: Project Assurance Q3 summary
Appendix 9: Customer Feedback Q3 summary
Appendix 10: Counter-Fraud and Corruption Q3 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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