

Date: 6 June 2022

Item: Risk and Assurance Quarter 4 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 4 of 2021/22 (12 December 2021 to 31 March 2022) (Q4), 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, 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 exempt supplementary information on Part 2 of the agenda.**

3 Director Update

- 3.1 This is the fourth 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. Detailed Elizabeth line assurance work is covered elsewhere on the agenda.
- 3.2 A lot of preparation has taken place to support the Board and Executive Committee informal risk discussion. This key session will allow us to update the Enterprise Risks and risk appetite to reflect the post coronavirus pandemic environment TfL is now in.
- 3.3 Internal Audit and the Quality, Safety and Security Assurance (QSSA) team met their target of 85 per cent of the Integrated Assurance Plan which required a significant amount of effort from both teams in Quarter 4 (Q4).

- 3.4 In Project Assurance reviews, the most prevalent theme continues to be the significant impact that a lack of staff resources is having on successful project delivery. There is evidence of improvement in the Procurement and Commercial area, and the newly launched engineering resource management tool is a positive step.
- 3.5 A former London Underground Customer Service Assistant has been convicted of theft from TfL, following an appearance at Highbury Corner Magistrates' Court in March 2022. She pleaded guilty to a charge of theft of approximately £250,000¹ from Passenger Operated Machines, while on duty, at Kings Cross Underground station in November 2019. She was sentenced to six-months imprisonment, suspended for 12 months, and ordered to pay compensation to TfL of the full amount she had stolen.
- 3.6 We are in the process of adjusting all our systems to reflect the new Chief Officer structure and this quarter is a transition period where we have some data in the new structure and other sections in the old structure. For the next quarterly report everything will have transitioned to the new structure completely.

4 Enterprise Risk Management

- 4.1 The following Level 0 Enterprise Risks reviews were facilitated by the team in the last quarter:
- (a) Major safety, health or environmental incident or crisis (ER1);
 - (b) Attraction, retention and wellbeing of our employees (ER2); and
 - (c) Supply chain disruption (ER5).
- 4.2 The outcomes of the above risks will now go to the relevant Panels and Committees according to the agreed schedule for the 2022/23 financial year.
- 4.3 Discussions are ongoing to expand the Elizabeth line strategic risks list to include programme level 1 risks. The TfL Enterprise Risk Management process will be adopted and a combined view of Elizabeth line strategic risks will be reported to the Elizabeth Line Delivery Group.
- 4.4 The schedule of Enterprise Risks to be reviewed by the relevant Panel or Committee for 2022/23 has been revised in accordance with the new Executive Committee meeting dates and will be submitted to the next meeting for approval.
- 4.5 The list of Enterprise Risks has been included in Appendix 1.

5 Audit and Assurance

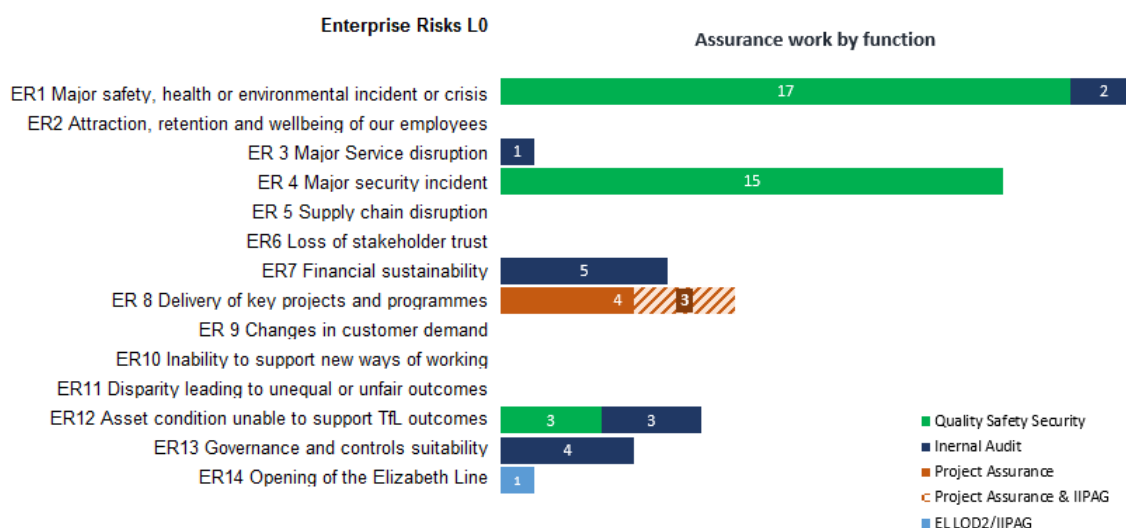
- 5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model:

¹ Post meeting note – this was amended to £25,000.

- (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 Q4 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 Q4 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 Q4 summary is included as Appendix 6. Appendices 2 to 5 exclude Elizabeth line audits, details of which are included in the Elizabeth line Programme Assurance paper elsewhere on the agenda.

5.4 The team have taken significant strides in making good progress on the plan. Close monitoring of delivery has ensured a delivery rate of 72 per cent of the programme to at least draft/final report out with the business by year end. There are eight audits with agreed delivery dates past the end of the 2021/22 financial year and this has been accounted for in our 2022/23 audit plan.

5.5 Fifteen audit reviews were completed in Q4. Five memos and 10 audit reports were issued (details are set out in Appendix 2). Of the 10 audit reports issued, three were rated as 'Adequately Controlled' and seven rated as 'Requires

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 There were five changes to the audit plan (excluding Elizabeth line) in Q4: two were cancelled and there were three deferrals. Details are set out in Appendix 5.

Mayoral Directions

- 5.6 There have been no Mayoral Directions this quarter.

Management Actions

- 5.7 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 remained at 76 per cent (the same as at the end of Quarter 3 of 2021/22 (Q3)). The percentage of actions given an extension for completion has reduced to 47 per cent (significantly lower than the figure of 65 per cent at the end of Q3).
- 5.8 Appendix 6 also includes information on overdue actions at the end of Q4. There are 10 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.

Quality, Safety and Security Assurance

- 5.9 The QSSA 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 Standards (PCI DSS). Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.
- 5.10 A summary of work carried out by QSSA in Q4 is included as Appendix 7.
- 5.11 QSSA delivered 94 per cent of the audit plan in 2021/22 against a target of 85 per cent (see Appendix 7). This is better than projected at the end of Q3 and confirms resource planning and management of the audit plan is accurate. A more equal distribution of larger and smaller audits in the 2022/23 audit plan will eliminate the uneven audit delivery experienced in 2021/22.
- 5.12 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 Q4 two audits were cancelled or deferred where assurance was no longer required or needed to be rescheduled. These both related to PCI DSS assurance and were due to the associated projects not yet being in a position to undertake assurance of the changes and will therefore be revisited at the relevant stage later in 2022.

5.13 There were 35 audits completed in Q4: Five Integrated System audits; 15 Topic audits; nine PCI DSS audits; five Network and Information Systems audits and one consultancy services report on a new ticketing device. Three were concluded as 'well controlled', 18 as 'adequately controlled', seven as 'requires improvement' and seven were 'not rated' (due to addressing several risks/subjects in one audit). Key findings are summarised below:

- (a) TfL Lone Working (21 579) – This was a pan-TfL review of how lone working is defined, assessed and managed in accordance with regulator and industry guidance. TfL's Management System content did not fully reflect the current health, safety and environment guidance. Training had been identified as a risk control but not fully implemented. Actions have been agreed and are in progress.
- (b) Surface Transport Projects and Programmes Directorate Structures (21 761): Design and Construction Compliance – The audit considered how it is assured that construction complies with approved designs and quality requirements. Some key Construction Design and Management and quality documentation was either not available or not approved within defined timescales. Actions have been agreed and are in progress.
- (c) LU Management of Rail Grinders (21 762) – The audit assessed conformance to TfL standards when operating and maintaining rail grinders. Findings were raised relating to the availability of rail grinder approval and assurance documentation, all actions have been satisfactorily closed.
- (d) Lessons Learnt Osterley Step-Free Access Project (21 774): Design and Construction – The audit was requested as a retrospective review of Pathway compliance to learn lessons with regard to the development of design and construction that ensures safety and technical compliance. Opportunities were identified to enhance assurance of the Principal Contractor's arrangements, the recording of non-conformances and lessons learnt. Actions have been agreed and are in progress.
- (e) London Underground Railway Engineering Workshop and Trains Modifications Unit Competence Management System Compliance (21 760) – Critical areas of the training procedure had not been fully implemented, which effected the ability to meet the Office of Rail and Road guidance on competence management systems. Actions have been agreed and are in progress.
- (f) London Overground Safety Authorisation (21 730) – The audit reviewed compliance with safety, risk, competency and infrastructure protection elements of the Safety Authorisation document. Safety responsibilities of all key safety posts had not been documented. Controls related to Infrastructure Protection and Competence were working effectively. Three of four actions raised have been closed.
- (g) London Overground Local Assessment of Network and Information System Regulation Compliance (21 796) – London Overground management and Cyber Security teams requested this audit to assist in the completion of

their Cyber Assessment Framework (CAF). Data gaps have been closed and the CAF has since been completed and submitted.

- 5.14 Across the last six periods there has been a steady increasing trend of actions been closed on time (68 per cent). Equally there has been a reducing number of actions granted extensions (currently 11 per cent) in compliance with our procedure. As of Q4 there are currently 68 overdue actions which is an increase. 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 (28 out of 44). Actionees receive routine reminders from the Audit team and overdue actions are escalated to the applicable management teams to try and resolve.

Project Assurance

- 5.15 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.
- 5.16 Project Assurance also conducts reviews of the sub-programmes to inform annual requests for Authority at the Programmes and Investment Committee.
- 5.17 Project Assurance reviews do not carry an overall conclusion in the same way as audit reports, however, recommendations 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.
- 5.18 Two sub-programme reviews were undertaken during the quarter, IIPAG involved in both. In the same time frame, five project assurance reviews were undertaken, with IIPAG involved in one of these. These reviews gave rise to 23 recommendations being made by Project Assurance of which none were critical issues, with IIPAG making four recommendations, none of which were critical.
- 5.19 A summary of the work completed by Project Assurance in Q4 is included as Appendix 8.

Customer Feedback

- 5.20 The QSSA team issued 24 questionnaires of which 11 were returned (45 per cent per cent). Satisfaction rates for QSSA remains above 90 per cent with four of five 'dissatisfied' scores coming from a single audit which has been addressed. Internal Audit issued eight questionnaires of which three were returned (38 per cent). Satisfaction rates are 90 per cent with no 'poor' or 'very poor' ratings. A summary of customer feedback forms is included as Appendix 9. We are developing proposals to increase the number of feedback forms received.

6 Counter-fraud and Corruption

- 6.1 The Counter-fraud and Corruption 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 Q4, including information on significant closed fraud investigations, is included as Appendix 10.
- 6.3 Of the 16 cases closed in Q4, nine resulted in internal disciplinary action being taken against TfL employees and 14 were referred to Law Enforcement agencies or reported to Action Fraud, including several of the cases where employees were disciplined. One case resulted in no action being taken, the allegation was investigated and identified as malicious.
- 6.4 The team continues to raise awareness of fraud and corruption across TfL through targeted sessions and presentations. During Q4, members of the team provided a fraud awareness presentation to colleagues from the Technology and Data team (80+ attendees) and hosted a fraud and corruption workshop with the Procurement and Commercial team.
- 6.5 Details of significant new and ongoing fraud investigations during Q4 is included in the paper on Part 2 of the agenda.

7 Resources

- 7.1 At the end of Q4 the Directorate was carrying eight vacancies: four in Internal Audit, one in Project Assurance, one in QSSA, one in Enterprise Risk and one in Counter-fraud and Corruption.
- 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 three of these roles.

8 Control Environment Trend Indicators

- 8.1 The Q4 indicators are included as Appendix 11.

List of appendices to this report:

- Appendix 1: Level 0 Risks
- Appendix 2: Internal Audit reports issued in Q4 2021/22
- Appendix 3: Work in Progress at the end of Q4 2021/22
- Appendix 4: Work planned for Q4 2021/22
- Appendix 5: Cancelled/ deferred/new audits from 2021/22 audit plan
- Appendix 6: Internal Audit Q4 summary
- Appendix 7: Integrated Assurance Q4 summary
- Appendix 8: Project Assurance Q4 summary
- Appendix 9: Customer Feedback Q4 summary
- Appendix 10: Counter-Fraud and Corruption Q4 summary
- Appendix 11: Control Environment Trend Indicators

Exempt supplementary information is contained in a paper on Part 2 of the agenda.

List of Background Papers:

None

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