

Date: 6 June 2022

Item: Risk and Assurance Annual Report 2021/22

This paper will be considered in public

1 Summary

- 1.1 This is the annual report of the Risk and Assurance Directorate, which is made up of the Enterprise Risk Management (ERM), Internal Audit, Quality, Safety and Security Assurance, Project Assurance and Counter-fraud and Corruption teams. The report provides an overview of the work carried out by the Directorate, and other activities during the year.
- 1.2 The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual Internal Audit opinion based on objective assessment of the framework of governance, risk management and control established by TfL management. The Internal Audit opinion is incorporated into this annual report in section 3 below.

2 Recommendation

- 2.1 **The Committee is asked to note the report.**

3 Internal Audit Opinion

- 3.1 In our opinion, the overall framework of TfL's governance, risk management and internal control in the year ended 31 March 2022 is generally adequate for TfL's business needs and operated in an effective manner. However, we draw attention to the following:

Our Internal Audit opinion for the year ended 31 March 2019 highlighted that a number of audits of governance and financial controls over procurement and contract management had been rated as 'Poorly Controlled'. There were a number of areas where commercial processes had not been adhered to which had affected TfL's ability to secure value for money. A transformation programme aimed at strengthening control in this area was initiated during 2019/20 and to provide time for this to progress and embed there was no further internal audit work in 2020/21. During this year Internal Audit has completed reviews of single source requests, contract variations with the Independent Investment Programme Advisory Group (IIPAG) reporting on their second review of the Procurement and Commercial Improvement Programme. Both Internal Audit and IIPAG identified that significant improvements have been made and previous Internal Audit and IIPAG findings to improve the control environment have been implemented. There is still much work to be done to further improve internal control and governance but now action plans are in place it should bring about the

required changes. Internal Audit and IIPAG will continue to monitor progress in this area.

Basis of the Internal Audit Opinion

- 3.2 We are satisfied that sufficient assurance work has been completed to allow us to form a reasonable conclusion on the adequacy and effectiveness of TfL's governance, risk management and control environment.
- 3.3 In giving this opinion, the Committee should note that assurance can never be absolute and, therefore, only reasonable assurance is provided that there are no major weaknesses in the system of internal control processes reviewed. The Internal Audit opinion does not provide any guarantee against material errors, loss or fraud.
- 3.4 The Internal Audit opinion is based on the audits, including consulting and advisory assignments, carried out by Internal Audit during 2021/22, and takes account of other sources of assurance including:
- (a) second line reviews of capital programmes and projects carried out by the Project Assurance team, and third line assurance delivered by IIPAG;
 - (b) audits of Health, Safety and Environment (HSE) and Asset Management, and Payment Card Industry Data Security Standard (PCI DSS) reviews carried out by the Quality, Safety and Security Assurance team;
 - (c) results of any follow up exercises undertaken in respect of previous years' internal audit work;
 - (d) control issues identified by the Counter-fraud and Corruption team in the course of their investigations; and
 - (e) assurance reviews carried out by the Elizabeth Line Programme and Project Assurance team as well as the work of the IIPAG Elizabeth line sub-group, Project Representative and the Crossrail Advisory Panel.
- 3.5 There have been no matters arising from any of the work completed that need to be brought to the attention of the Committee.
- 3.6 There have been no restrictions imposed on the scope of the work completed by the Internal Audit function.

4 Work Delivered

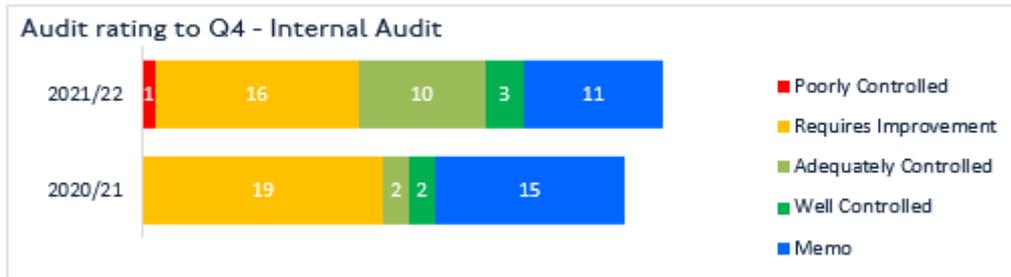
- 4.1 Risk and Assurance has reported quarterly to the Committee on the work delivered by its various teams. This section summarises the work done over the course of the year.
- 4.2 We are in the process of adjusting all our systems to reflect the new Chief Officer structure and this quarter is a transition. Going forward everything will be changed to reflect the new structure.

Enterprise Risk Management

- 4.3 All scheduled Level 0 Enterprise Risks have been formally reviewed by the Executive Committee and the relevant Panel or Committee during the year. The only exception was 'Financial Sustainability' (ER7), due to the ongoing funding negotiations with Government.
- 4.4 'Opening of the Elizabeth Line' (ER14) has been broadened to cover all stages of the project and not just the central section.
- 4.5 The top six Level 1 Strategic Elizabeth line risks were developed as per TfL's Enterprise Risk Management process. Discussions are ongoing to expand this list of strategic risks to include strategic programme risks ensuring an integrated picture of Elizabeth line strategic risks is presented to the Elizabeth Line Delivery Group to enable effective decision making.
- 4.6 Active Risk Manager, the risk management software tool used in TfL has been successfully upgraded. The upgraded system has improved reporting capability and functionality which will help to simplify the aggregation, disaggregation and correlation between the different level of risks.
- 4.7 A training programme for TfL's visualisation tool has been developed that will help upskill users to model the systemic interconnectivity and correlation between risks.
- 4.8 Planning began for the Executive Committee and Board informal risk session, covering emerging threats, the risks to achieving TfL's Vision and Value ambitions and risk appetite. The session was held on 4 May 2022 and we are now working closely with the business to update the Level 0 and Level 1 strategic risks which will drive risk management and support better decision making across the organisation.

Internal Audit Activity

- 4.9 The Committee approved the Integrated Audit Plan for 2021/22 on 17 March 2021. The plan clearly distinguishes between the third line (Internal Audit) and second line assurance, with the latter noted in summarised form.
- 4.10 The plan has changed over the year with several additions, cancellations, and deferrals. The reason for this includes changes in risk profile changing priorities and the loss of three members of the Internal Audit team. To accommodate these changes we confirm our audit schedule on a quarterly basis. We have reported regularly on all changes to the plan throughout the year.
- 4.11 A number of audits in the 2021/22 Audit Plan, which commenced late in Quarter 4 of 2021/22 were still in progress at 31 March 2022. This was anticipated and reported to the Committee at the 16 March 2022 meeting. A summary of the Internal Audit reports issued during the year is set out in the table below and includes 14 audits carried forward from the 2020/21 audit plan. The total number of reports issued was 41.



4.12 Excluding memorandums, the percentage of audit reports that were given an assurance rating of poorly controlled or requires improvement has decreased from 82 per cent (2020/21) to 57 per cent this year. This compares with 63 per cent (2019/20) and 48 per cent (2018/19). The lifting of Covid restrictions and new ways of working are likely to be a factor. Analysis of the findings identified that across the business there is an inconsistent approach to record keeping. This includes a lack of supporting evidence for decision making, missing documents to support payments (including timesheets, invoices, supplier costs) recruitment, procurement and asset registers. This exposes TfL to gaps in its corporate memory and hinders our ability to demonstrate (either internally or externally) that appropriate governance and control has been applied. Other themes included lack of clarity over roles and responsibilities, out of date and non-adherence to some policies and procedures and performance management of suppliers/contracts.

Assurance Activity

4.13 The chart below summarises the work completed at the second and third line of assurance by our various Risk and Assurance teams, by reference to the related Enterprise Risk. Detailed information of the internal audits completed against each of the Enterprise Risks is reported at each Committee meeting. A list of the internal audits completed this year can be found in Appendix 1.



4.14 The following paragraphs highlight some of the findings from the audit and assurance work carried out in 2021/22.

ER7 – Financial Sustainability

4.15 Audits under this risk heading cover a wide range of activities, including basic financial control as well as procurement/ commercial processes. Around 40 per cent of the Internal Audit plan relates to this risk which is necessary given TfL's financial position. The future success of TfL relies on the right key financial and procurement controls being in place and operating effectively.

4.16 During 2021/22 TfL has continued its three-year transformation programme designed to modernise the Procurement and Commercial (P&C) Directorate. The revised senior management structure has now been implemented including the appointment of a number of individuals from outside TfL into key strategic positions. IIPAG, with the support of the PA commercial lead, reviewed this programme in 2020/21 and have undertaken a detailed follow up study this year. IIPAG has acknowledged the significant effort that has been made in the delivery of this programme to date, and the benefits it will begin to demonstrate. There are still concerns over the work still to be done, in particular IIPAG has recommended the urgent development of improvement proposals for the estimating and cost management functions which the programme to date has not addressed. IIPAG and PA will continue to monitor the delivery of this significant programme.

4.17 Audits of Single Source Requests (SSRs) and Contract Variations found that the Procurement and Commercial (formerly Procurement and Supply Chain) team had made improvements to the control environment for SSRs but the number and value of those in the first six months of 2021 remained high. This poses potential financial, legal and reputational risks to TfL which are being addressed as a result of this audit. We found that the framework, processes and guidance in place for contract variations have been sufficiently considered and work fairly well. Improvement could be made in the time taken to complete contract variations and record keeping evidencing decision making.

4.18 We continue to provide grant audit certification to TfL and the London Transport Museum. This year we certified £17,713,409 of Dedicated Home to College expenditure, £2,625,000 of Arts Council England Funding for the London Transport Museum and €34,191 for Clean Mobile Energy. We issued 10 internal reports of which Transitioning to the new Additional Voluntary Contributions Provider and Bank Reconciliations were found to be well controlled. Fixed Asset accounting and Pensions Payroll were found to be adequately controlled. We continue to see that key financial controls are in place and in the main operating effectively.

ER8 – Delivery of the TfL Key Investment Programme

4.19 The primary source of assurance over delivery of the TfL Investment Programme is through the work of the PA team. The team carries out assurance reviews of projects, programmes and sub-programmes across the TfL Investment Programme. Larger, more complex and riskier projects and programmes are also reviewed by IIPAG, which provides independent third line assurance on the delivery of the Investment Programme.

- 4.20 During the year PA undertook 58 assurance reviews, these consisted of 17 sub-programme reviews and 41 project reviews. This is a slight increase on 2020/21 but still around 40 per cent lower than in previous years, primarily due to the constrained and uncertain capital funding situation. PA and IIPAG reviews make specific recommendations for improvement and in some cases “critical issues” are identified which need resolution before a project proceeds. A key PA role is to track recommendations and critical issues through to close out, with data being presented to this Committee and the Programmes and Investment Committee, including the reporting of overdue items. PA has focused significant attention this year on supporting business areas to close out their recommendations and critical issues within the agreed timescales, and address items that have become overdue. As a result, the number of open and overdue recommendations has shown an improving trend during the year. This provides confidence to the business that the recommendations that PA and IIPAG make are being acted on in a timely way.
- 4.21 Over the year, in parallel to the formal assurance reviews undertaken, PA has continued to increase continuous assurance activities. The PA team maintains a “watching brief” on projects across the entire Investment Programme, periodically monitoring performance across a number of key metrics. This provides insight on project progress and allows the identification of key issues. This in turn allows PA to recognise common themes across programmes, and this is also used as a focus for subsequent assurance reviews. Summaries of the findings from the assurance of reviews undertaken have been included in reports to the Programmes and Investment Committee and the Risk and Assurance quarterly reports to this Committee.
- 4.22 Programme Assurance work has been more challenging this year with the uncertainty around funding creating fluidity around when projects and programmes require assurance interventions to align with funding requests and other key activities. PA has responded dynamically to this challenge and rescheduled activity often at short notice to respond to business needs, and where needed have tailored assurance reviews to accommodate urgent requests, often using information gleaned from the continuous assurance process. This has particularly been the case for the Healthy Streets programme. Additionally, this year PA has seen an increasing demand for the output of assurance activity in order to support business decision making, plus there being a recognition of the high-quality output provided by PA.
- 4.23 The PA team also identify, highlight and monitor themes that arise during reviews across the Investment Programme. There have been three themes that have been particularly prevalent during this year:
- (a) **Availability of Staff Resources:** Concerns over the resourcing levels and their impact on successful delivery, have arisen in a number of PA reviews this year. PA reports over the course of the year have provided regular updates to the business on this issue including specific views over resourcing challenges in the commercial and engineering areas;
 - (b) **Quality of Business Cases:** Business cases are reviewed in detail in many PA reviews. In order to elevate the standard of business cases, an improvement programme has been put in place during the course of this year. The work being done by leads in Investment Delivery Planning and Investment Appraisal as part of first line assurance is very positive with the Business Case Assurance

Manager in the PA team supporting this improvement initiative. This work will continue in the coming year and PA will continue to monitor and report on standards of business cases in future reviews; and

- (c) **Robust Estimated Final Costs (EFCs):** PA reviews regularly consider the extent to which EFCs can be considered robust. PA has identified a number of drivers that impact the robustness of EFCs. Findings have been identified in order to support improvements in this area. PA will continue to monitor EFCs as part of assurance reviews in the coming year.

4.24 PA works very closely with, and provides support to, IIPAG, primarily through conducting joint targeted assurance reviews. These joint interventions ensure comprehensive and broad reviews, and a consistent approach between second and third lines assurance. IIPAG have produced a number of valuable reports during the year including studies on the improvement of the P&C Directorate and the Programme Management Office, risk treatment in projects, and TfL procurement processes. PA has made available subject matter experts in the commercial and business case disciplines to provide high quality input to support IIPAG's work. PA has also strengthened the support that IIPAG receive from the PA team on their cross-cutting work which has also been very beneficial to them.

**ER1 – Major Safety, Health or Environmental Incident or Crisis; and
ER12 – Asset Condition Unable to Support TfL Outcomes**

4.25 The Quality, Safety and Security Assurance team delivers the majority of our assurance over these two risks. Much of the work focused on the implementation of the Safety, Health and Environment (SHE) management system and asset engineering quality management.

4.26 Five of the audit reports issued by Quality, Safety and Security Assurance during the year were concluded as 'poorly controlled', as follows:

- (a) Surface Transport Projects and Programme Delivery: Client Duties and CDM (Construction Design and Management Regulations) Compliance (20-721) – Communication arrangements were found to have affected the completion of key documentation that demonstrate CDM compliance. All actions have been closed;
- (b) Handover of tram fleet asset information from project to maintenance teams (20-724) – The audit identified key project documents, project and programme management controls that govern the creation and handover of asset data to operational and maintenance teams. All actions have been closed and a revisit scheduled for 2022;
- (c) Commercial Development Estates Management HSE Compliance (21-732) – Roles and responsibilities were not always clearly defined in management procedures and/or all controls implemented consistently, resulting in potential legal non-compliances. Actions remain open and in progress.
- (d) Surface Transport Electrical Inspections (21-735) – The audit identified gaps in data collection, information, recording, storage and document management of reports/certificates. Actions remain open and in progress; and

(e) Management of London Underground (LU) station tenants' fire risk assessments (21-736) – The availability and quality of tenant fire risk assessments was inadequate and not consistently monitored by LU. LU has embarked on a large package of work to address this at a systems level. Actions remain open and in progress.

4.27 We have continued the programme of Integrated Systems Audits following some delays due to social distancing limitations. These short, focused audits, have now been rolled out into LU Asset Performance and Capital Delivery maintenance teams to test local compliance with asset specific requirements in addition to critical elements of the management system, including HSE, security, competence, and financial controls. The trends and lessons learnt identified from this work have been well received by management teams.

4.28 The internal audit of Fatigue Risk Management was rated as requiring improvement. The review found that projects awarded funding under the Bus Safety Innovation Challenge or equivalent were not adequately monitored. It found that invoices received for payment were not always recorded against the project award. There was also no overarching plan that identified the various projects that were taking place within the bus safety team and related projects taking place outside bus safety.

4.29 Real time assurance on the effectiveness of the procurement process for the development and implementation of a Digital Safety, Health and Environment Management System (SHEMs) was provided by Internal Audit. The review covered Work Packages 1 and 3. It concluded that the procurement of the new SHEMS was effectively managed through engagement with stakeholders, the Request for Procurement process and evaluation of submissions. A real time audit of Work Package (WP) 2 is in progress and will continue for each WP through to contract award.

ER2 – Attraction, Retention and Wellbeing of our Employees

4.30 An internal audit of the headcount controls process found that it was adequately controlled with recommendations made about how to improve the speed and resources needed to support the process. It found that there are robust local headcount controls in place that limit the value and need for checks to be done by the Human Resources Strategic Governance Team and Chief People Officer.

ER3 – Major Service Disruption

4.31 Three audit engagements were completed against this risk. The Engineering Resource Model was found to be adequately controlled with the quality of resourcing information improving and data being managed effectively. Improvement plans had been identified but they need to focus more on easing the process between the leads and on open sharing of information about process problems and solutions.

4.32 A series of five audits have been planned to look at Climate Adaptation. This year Internal Audit delivered the first two of these audits which covered Planning, and Roles and Responsibilities. Both areas needed improvement. For Climate Adaptation Planning we found that there is no overarching adaptation strategy or strategic view of the related risks. Supplier and asset climate risk is not fully understood. For Roles and Responsibilities, we found that coordination of adaptation has not been assigned

to a specific group by TfL's leadership and Directorates lack comprehensive plans for building capabilities and competencies. The work on Climate Adaptation has been particularly well received by the business.

ER13 – Governance and Controls Suitability

- 4.33 Six audits were completed against this risk. We found that compliance with General Data Protection Regulation for the Concessions System was adequately controlled. There are some opportunities to improve the control environment which are being addressed. We also found that the P&C Directorate have the capacity to take on the procurement of Elizabeth line's existing contracts. The new operating model in Procurement and Commercial has built in flexibility that aims to manage the level of uncertainty in estimating future work. It is too early to assess whether this is the case.
- 4.34 During the planning process for the internal audit of Gifts and Hospitality some weaknesses and areas for improvement in the control environment were identified. This included policy, communication, recording and authorisation, review and monitoring, and training. A memo was issued with recommended actions and a full review will be done once the issues have been addressed.
- 4.35 The audits of Declaration of Interests and Recruitment both resulted in requires improvement ratings. We found that improvements were needed in some key controls around declarations of interest. In particular declaration of interest forms are not being kept up to date or returned by some Chief Officers and Directors. On Recruitment while certain controls were adequately designed and operating some areas of weakness were identified. These included the quality of the documentation for assessment and selection of candidates and verification of professional and educational qualifications.
- 4.36 The audit of the Bus Service Delivery Model was a carry-over from the previous year. This was found to be poorly controlled with a number of high priority issues. There were specific issues around roles and responsibilities and a lack of management information to support decision making.

ER4 – Major Security Incident

- 4.37 The two internal audits under this risk covered Technology and Data. The first audit looked at Privileged Access to Mission and Business Critical systems. The overall rating was requires improvement. TfL has not formally determined and classified privileged account types and a privileged access inventory has not been completed. Bi-annual privileged user access reviews are required but these are not happening.
- 4.38 The second internal audit was on Enterprise IT Security Layer. There were several scope areas that could not be tested or tested fully. Not all evidence was provided due to key staff changes and competing priorities with other projects. Given the lack of evidence we were unable to fully assess the operating effectiveness of all controls in the scope. The Quality, Safety and Security Assurance team provided a team member on extended secondment to the Security team in the first half of 2021/22. The objective of this work was to assist in the formation of TfL's security strategy, culture and governance using risk and assurance principles. Quality, Safety and Security Assurance was involved due to the security qualifications and experience of an individual within the team. In Quarter 3 of 2021/22 (Q3) an audit of Local Security

Actions Plans was completed to provide qualitative and quantitative intelligence on local manager awareness of their local security risks and sources of further information and guidance within TfL. The conclusions were presented to the TfL Executive Security Group and used to inform further work by the Security Governance and Business Change team.

4.39 Six audits were carried out against the Network and Information Security Regulations, sampling five systems across TfL and the overarching database managed by the Cyber Security team. This programme of audits has provided evidence of the current level of compliance across TfL and actions to strengthen risk management and incident response. Sixteen audits of compliance with the PCI DSS were also completed to ensure that TfL has robust technology, systems, process and competence standards for the processing of card payments. This includes the provision of support and advice to TfL teams introducing new or changing existing payment systems or technology to ensure compliance is designed into the system.

ER14 – Opening of the Elizabeth line

4.40 In September 2021, the responsibility for assurance of the Elizabeth line was transferred to the Risk and Assurance Directorate. An Integrated Assurance and Audit schedule was developed to cover second and third line assurance activities and is a rolling programme of activity.

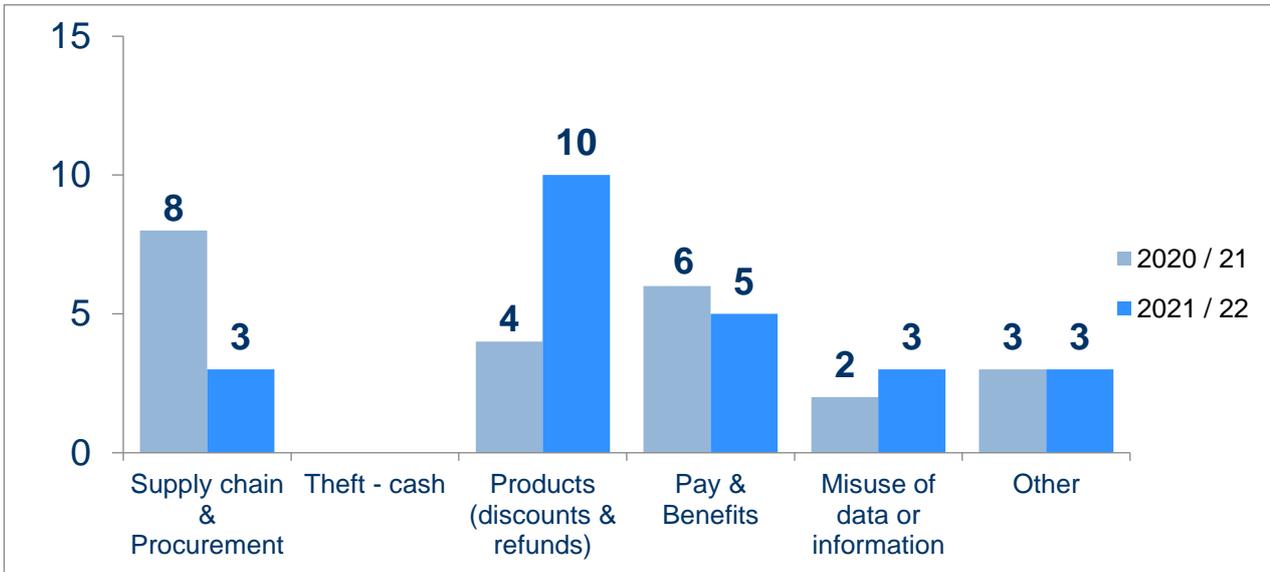
4.41 Audit work in Crossrail recommenced in Quarter 2 of 2021/22 and was expanded to cover the Elizabeth line in Q3. By the end of 2021/22 we had issued nine audit reports, four of which were concluded as requires improvement. The audit conclusions reflect the rapidly changing nature of the programme and lack of expected controls. A more in-depth view is provided in a separate paper covering Elizabeth line Assurance elsewhere on the agenda.

4.42 The Programme and Project Assurance team conducted a number of Targeted Assurance Reviews of the Elizabeth line. These include the Romford Operations Control Centre, the Depot and Fleet organisation, as well as Rail for London Infrastructure's Organisation and Maintenance effectiveness and readiness for entry into Revenue Service. A number of recommendations were made to enhance the service provision and reduce the risk to the operation when Revenue Service commences on 24 May 2022. The recommendations have been accepted and progress is being monitored, with the recommendations either in place or a plan in place to address them either prior to Revenue Service or in a small number of cases during the early days of Revenue Service.

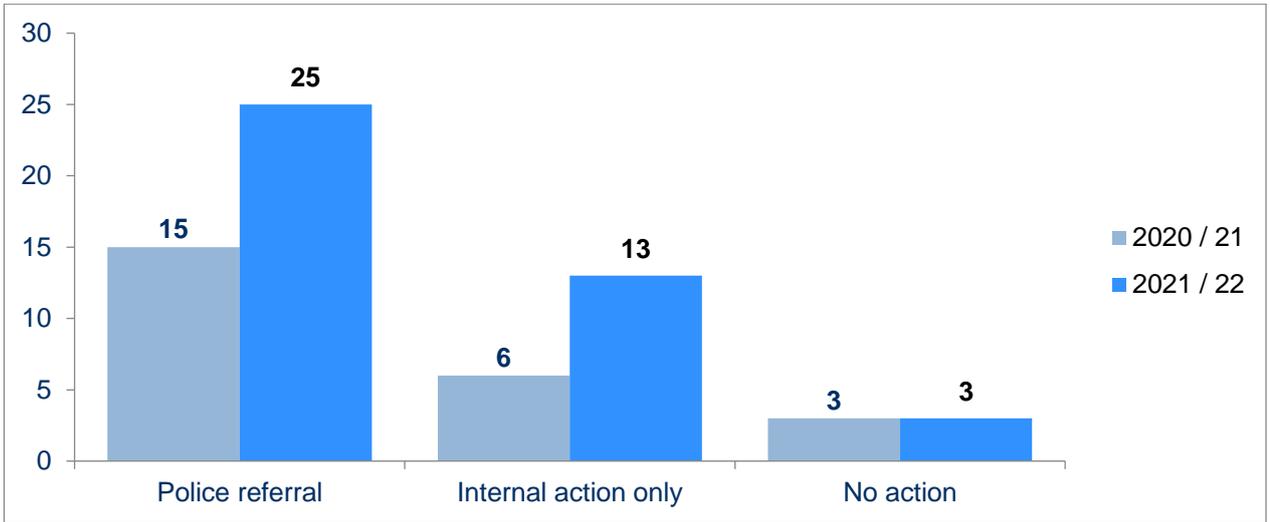
Counter-fraud and Corruption

4.43 The Counter-fraud and Corruption team have managed 24 new cases during 2021/22, compared to 23 in the previous year. Additionally, in 2021/22 the team received a total of 216 miscellaneous referrals, compared to 150 the previous year, an increase of 44 per cent. The primary reason for this is the development and introduction of new fraud reporting tools for TfL employees (via SharePoint) and members of the public (through the 'Crime Reporting' page on our TfL website).

4.44 We have reported to the Committee quarterly throughout the year on the status of fraud and corruption cases. An analysis of new cases by type in 2021/22 and comparative figures for 2020/21 are shown below.



4.45 Of the 24 new cases opened in 2021/22, 16 (66 per cent) have already been referred directly to the police or reported to Action Fraud, which is double the amount in 2020/21 (30 per cent). Decisions regarding seven other cases have yet to be made. Policing resources dedicated to investigating complex fraud cases, particularly commercial fraud, remain small and this can present significant challenges with the reporting of and the time it takes to progress criminal prosecutions. We continue to collaborate with senior law enforcement officers to obtain best outcomes on all reported fraud cases. During the year a total of 41 cases were closed (2020/21: 24 cases). The outcomes of these cases are summarised as follows.



4.46 We continue to collaborate with internal and external stakeholders to support the delivery of our Counter-fraud and Corruption strategy. The TfL Counter-fraud and Corruption Steering Group continues to meet regularly, chaired by General Counsel, and we are active members of several forums, including the recently formed UK Rail Fraud Forum (consisting of fraud specialists from Train Operating Companies across the UK), the London Fraud Forum (bringing together the public and private sector

anti-fraud communities from across London), and our own TfL Security and Culture programme.

4.47 Our Counter-fraud and Corruption 'Action Plan 2019-21', approved by the Executive Committee in December 2019, has now been completed. Our Counter-fraud and Corruption strategy will be reviewed and updated in 2022/23, and a new 'Action Plan' agreed, with particular emphasis to be given to the development and introduction of a pan-TfL fraud risk assessment process.

4.48 The team have continued to deliver a range of fraud awareness activities, designed to prevent and detect fraud and corruption, deter would-be offenders, and educate the workforce about the risk of fraud in the workplace and at home. The highlights this year have included:

- (a) the remote hosting of our 'Fraud Awareness week' in November 2021, including the use of a 'click bait' fraud intranet article that attracted over 3,800 views, fraud awareness presentations on digital screens across our main office buildings, a digital desktop advertisement about reporting fraud and a short video highlighting the work of the team and notable fraud convictions;
- (b) working alongside our Commercial and Legal teams to review and update our pan-TfL Declarations of Interest guidance;
- (c) the development of our new internal Counter-fraud and Corruption SharePoint site and external fraud reporting platform, providing TfL employees and members of the public with easy-to-use online fraud reporting forms, to best capture fraud intelligence and allegations of financial crime against TfL;
- (d) the development and delivery of 'fraud awareness' presentations and workshops to support our ongoing collaboration with senior management to prevent and detect financial crime; and
- (e) the introduction of a process to ensure all compensation awarded to TfL by the courts, from the conviction of offenders, is documented, tracked and received.

Steering Group Participation

4.49 The Risk and Assurance leadership team have continued to be involved in a range of steering groups and other governance bodies. This involvement enables us to provide input on risk and assurance matters, as well as allowing observation of project and other governance processes.

Quality, Safety and Security Assurance Summary

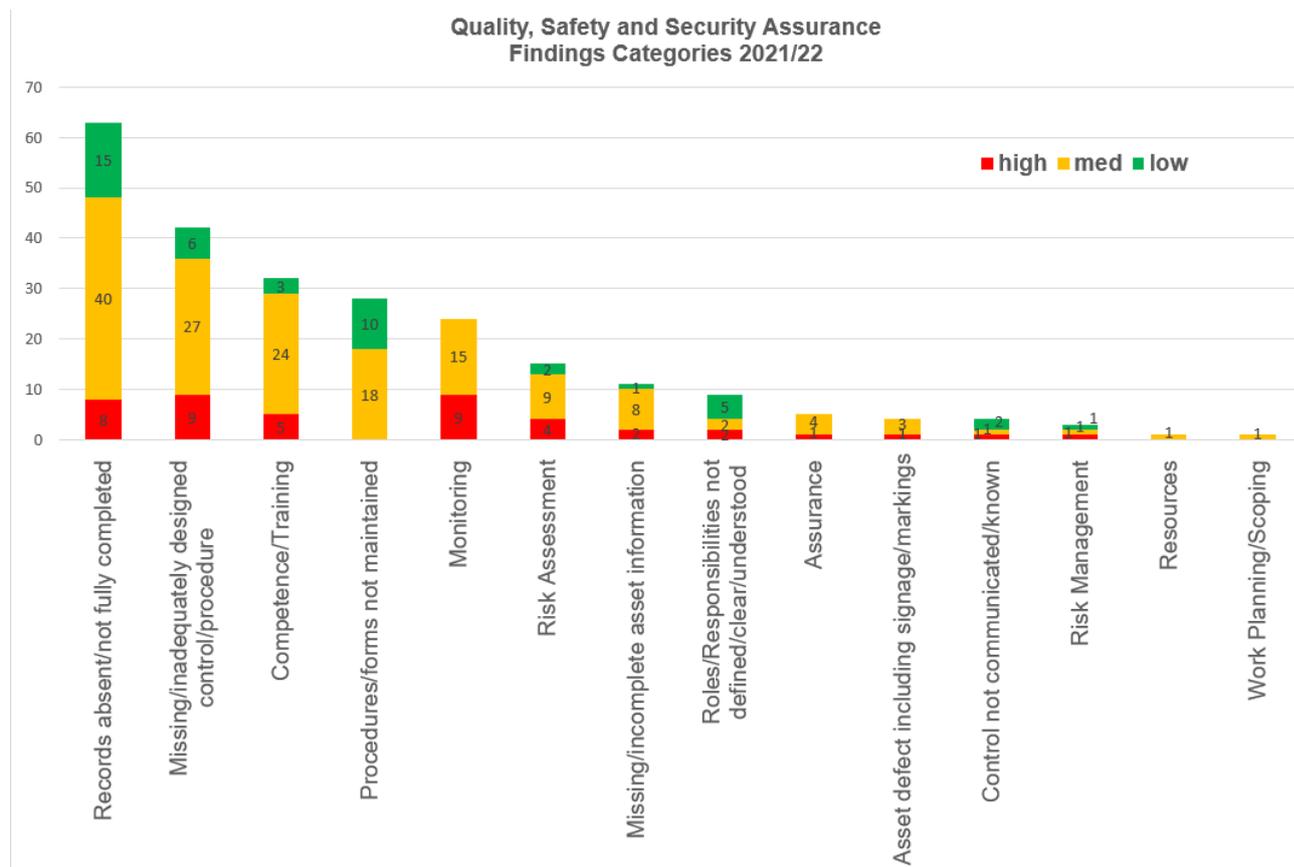
4.50 A significant change this year has been the change of the team's name from 'Integrated Assurance' to 'Quality, Safety and Security Assurance'. 'Integrated Assurance' was not well understood by the team or stakeholders and the revised name is intended to make it clear what subjects the team provides assurance on, who our key stakeholders are and the applicable governance regimes. The assurance provided by the team and the processes for its delivery remain unchanged.

4.51 In total Quality, Safety and Security Assurance completed 86 assurance assignments in 2021/22 (compared with 56 in 2020/21), these comprised:

- (a) 52 audits against risk ER1 'Major health, safety or environmental incident or crisis' (this includes 23 Integrated Systems audits, see below);
- (b) 23 'Integrated Systems' audits (assessing LU operational and maintenance teams' compliance with a range of management system requirements including SHE, competence and finance);
- (c) 10 audits of TfL asset quality and compliance with internal or industry standards against risk ER12 'Asset condition unable to support TfL outcomes'; and
- (d) 16 PCI DSS compliance audits and five Network and Information Systems compliance audits against risk ER4 'Major security incident'.

4.52 Of these audits, six were concluded as 'well controlled', 32 'adequately controlled', 17 'requires improvement' and five 'poorly controlled'. Proportionally the distribution of 2021/22 conclusions is consistent with 2020/21, the greatest difference is an 8.9 per cent increase in the number of 'requires improvement' audits and a 7.9 per cent reduction in the percentage of memos/not rated. Twenty-six audits were not given a conclusion, 23 of these were 'Integrated Systems audits' which are not concluded as they cover a wide range of subjects and risks making a single conclusion misrepresentative. However, more detailed analysis of trends and lessons learnt from the 'Integrated Systems audits' are provided quarterly to the Operations leadership team.

4.53 Due to the nature of our assurance work being at the second line of defence, the most commonly occurring findings relate to non-compliances with TfL management systems, industry standards or legal requirements. Following the introduction of new audit software in 2021, for the past year we have codified individual audit findings with actions which allows for greater trend analysis (see graph below). The most commonly occurring findings are missing or incomplete records, procedures and training records or monitoring arrangements. This is not unexpected as audits routinely seek assurance that good process exists, teams are competent in its implementation and compliance is locally monitored and recorded. It is therefore logical that the greatest number of findings are in these categories. There is a small peak in the number of 'high' findings under 'monitoring', this reflects the criticality of having local (first line of defence) assurance arrangements to inform managers of performance. Detail is set out in the graphic below:



4.54 A benchmarking exercise was undertaken with Network Rail, comparing our systems, templates and process with those of a comparable second line of defence audit team in Network Rail with the aim of identifying good practice. In summary, both teams operated broadly comparable assurance regimes, with notable small number of exceptions due to the idiosyncrasies of the associated organisations. Opportunities have been identified to provide more detailed process for the closing of audits, sampling methodology and use of technical specialists on audits.

4.55 A significant piece of work in 2021/22 was the continuation of consultancy services to support the development of the TfL security strategy, governance and culture. This is discussed under the section ‘ER4 – Major security incident’ above.

5 Quality Assurance and Improvement

5.1 In accordance with the Public Sector Internal Audit Standards, Internal Audit has an ongoing quality assurance and improvement programme to evaluate our compliance with the Standards and to identify opportunities to improve the effectiveness and efficiency of the function. This is delivered through an annual self-assessment process, but at least every five years we are required to commission an external assessment by a qualified, independent assessor from outside the organisation.

5.2 At the direction of the new Head of Internal Audit (HoIA) we have not carried out our annual assessment. A review of internal audit’s processes and procedures was completed this year and a new manual drafted but not implemented. The HoIA wanted time to assess the new proposals and become familiar with the current way of working. The HoIA, supported by the Senior Internal Audit Managers, will undertake an internal assessment during the first quarter of the 2022/23 financial

year which will inform the decision when to commission a formal External Quality Assessment.

6 Resources

Headcount

- 6.1 We began the financial year with eight vacancies across the Risk and Assurance Directorate and the same number but different roles at year end. Two key appointments were made with the recruitment of a new permanent Head of Internal Audit and the secondment for Head of Project Assurance. The TfL headcount controls process continues to be rigorously applied and so vacancies are only being filled when essential and as workload and business need requires, as such we are in the process of actively recruiting for three of the current vacancies.
- 6.2 Unlike other areas of TfL, staff turnover has once again been low, and for the most part when we have vacancies, we attract good quality candidates into the team. The exception to this is the Technology, Information and Security (TIS) auditors. We have therefore decided to support one of the current Band 3 auditors to become an accredited TIS auditor to help improve our capability in this area and reduce our reliance on co-source partners.

Co-Sourcing

- 6.3 During the year we have utilised co-sourcing contracts consisting of two external providers, for delivery of TIS audits due to a lack of internal resource. The quality and timely delivery of the work has not been good and we are looking to reduce our dependence on the co-source providers by further attempts to recruit TIS auditors again.

Secondments

- 6.4 We have continued to make successful use of secondments, both inward and outward, over the course of the year. Secondments are a useful means of filling staff vacancies, but also valuable in helping provide development opportunities to staff.
- 6.5 At the end of the financial year, we had two staff members in secondment roles within Risk and Assurance, three staff members on secondment to other parts of TfL and three staff from elsewhere in TfL seconded into Risk and Assurance.

7 Stakeholder Feedback

- 7.1 At the end of every audit engagement, we send out a feedback form to the principal auditee(s) requesting their views on the audit process and the report. The result of the feedback is reported in detail at each Committee meeting. The following provides the full picture at the end of the financial year.
- 7.2 In 2020/21 Internal Audit issued 26 questionnaires with a return rate of 35 per cent and with an average score of 90.7 per cent (see table below).

Very Good	Good	Satisfactory	Poor	Very Poor	Average Score %
63	22	4	0	0	90.7

7.3 Quality, Safety and Security Assurance issued 66 questionnaires in 2021/22 with a response rate of 50 per cent and an average score of 93.5 per cent satisfied across the year (see table below).

Satisfied	Dissatisfied	Not applicable	Average Score %
240	15	5	93.5

7.4 The majority of respondents continue to be satisfied with the way we carry out our work, although the low return rate is a cause for concern. We are working on how we can encourage a higher return rate and expect to trial this during Quarter 1 of 2022/23.

List of appendices to this report:

Appendix 1: Overview of Internal Audit Work 2021/22

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