

**Date: 21 September 2022**

**Item: Risk and Assurance Quarter 1 Report 2022/23**

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## **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 1 of 2022/23 (1 April 2022 to 25 June 2022) (Q1), the work in progress and planned to start, and other information about the Directorate's activities.
- 1.2 A paper is included on Part 2 of the agenda, which contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 7 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business and financial affairs of TfL that is commercially sensitive and likely to prejudice TfL's commercial position; and information relating to ongoing fraud and criminal investigations and the disclosure of this information is likely to prejudice the prevention or detection of crime and the apprehension or prosecution of offenders. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the report and the exempt supplementary information on Part 2 of the agenda.**

### **3 Director Update**

- 3.1 This is the first quarterly report for financial year 2022/23 to the Committee highlighting the activities of five of the six teams making up the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit; Quality, Safety and Security Assurance; Project Assurance; and Counter-fraud and Corruption. Detailed Elizabeth line assurance work is covered elsewhere on the agenda.
- 3.2 Following discussions with the Board and Executive Committee at the risk briefing session on 4 May 2022, the Enterprise Risk Management Framework has been updated to reflect the Vision and Values roadmaps. The Level 0 risks have also been updated and there are now 10 Enterprise Risks which have been approved by the Executive Committee, details of which are set out in section 4.3 below. Work on risk appetite has started and will be presented to the Executive Committee in October 2022. Improvements to Level 1 processes are also ongoing and will help the business manage their risks more effectively.
- 3.3 Work has begun on developing the Integrated Assurance Framework for TTL Properties Limited (TTLP). A paper was submitted to the 30 June 2022 Land and

Property Committee (LPC) setting out how this would be undertaken for second and third line assurance activities. An Integrated Assurance and Audit schedule will be produced for approval at the next LPC meeting. A paper summarising TTLP assurance activity will also be submitted to this Committee and will include details of any changes to the assurance schedule.

- 3.4 Last year we responded to the Department for Business, Energy and Industrial Strategy's (BEIS) consultation on restoring trust in audit and corporate governance. Following the consultation BEIS published its response to the White Paper on 31 May 2022 with much of the focus on increasing the quality and effectiveness of external/statutory audit and audit market reforms aimed at professional services firms. Some proposals could also affect the role and work of internal auditors. However, there is no detailed timetable for implementation of the plans or introducing legislation. The action TfL needs to take depends on whether TfL Group is classified as a Public Interest Entity which is not yet clear. Once our status is known we can address the specifics of the reforms. We anticipate that this may involve some re-packaging of what we currently do and the possible introduction of new processes and procedures. We will keep the Committee informed on this matter as it progresses.
- 3.5 In Project Assurance reviews during Q1, availability of staff resources is still the theme that arises routinely as the primary risk to project delivery. The Project Assurance team continues to focus attention on reviewing the strength of business cases and their ability to demonstrate good value for money and the impact of improvement initiatives to improve business case quality.
- 3.6 The Counter-fraud and Corruption team continues to refer offenders for prosecution. In June 2022 a TfL customer pleaded guilty at Westminster Magistrates' Court to making over 800 fraudulent claims for delayed trains contrary to section 1 of the Fraud Act 2006. He had exploited weaknesses in TfL's Oyster online system to claim two refunds a day over an 18-month period to April 2020. He was sentenced to 26 weeks' imprisonment, suspended for 12 months, electronically tagged and ordered to pay compensation to TfL of the full £3,035 value of the claims. Following identification of the fraud in May 2020, customers have been required to contact Customer Services if they wish to make a claim in respect of a delay to a journey with a magnetic ticket, thus reducing the opportunity to submit fraudulent claims.
- 3.7 In July 2022 a tenth suspect in the 16+ Zip Oyster fraud case was found guilty of conspiracy to defraud TfL by a jury at Isleworth Crown Court. He received a 12-month prison sentence, suspended for 18 months, 150 hours of unpaid work and was ordered to pay TfL £1,000 in compensation.

## **4 Enterprise Risk Management**

4.1 The following Level 0 Enterprise Risks reviews were facilitated by the team in Q1:

- (a) Major safety, health or environmental incident or crisis (ER1);
- (b) Attraction, retention and wellbeing of our employees (ER2);
- (c) Major security incident (ER4);
- (d) Supply chain disruption (ER5);
- (e) Asset condition unable to support TfL outcomes (ER12); and
- (f) Governance and controls suitability (ER13).

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

4.3 As mentioned above, the new 10 Enterprise Risks are:

- (a) Inability to deliver safety objectives and obligations (ER1);
- (b) Attraction, retention, wellbeing and health of our employees (ER2);
- (c) Environment including climate adaptation (ER3);
- (d) Significant security incident (ER4);
- (e) Procurement including supply chain (ER5);
- (f) Deterioration of operational performance (ER6);
- (g) Financial resilience (ER7);
- (h) Delivery of TfL key investment programmes and projects (ER8);
- (i) Changes in customer demand (ER9); and
- (j) Governance and controls suitability (ER10).

4.4 The original set of risks were either retained, amended or reassigned to Level 1 or closed as appropriate. Workshops will be carried out to develop the new and amended risks so papers can be prepared and presented to Executive Committee and the relevant Panels and Committees during the next 12 months.

## 5 Audit and Assurance

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

- First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/controls;
- 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;
- 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 Q1 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 Q1 is at Appendix 2, audits in progress at Appendix 3, work planned to start in Quarter 2 of 2022/23 (26 June 2022 to 17 September 2022) (Q2) at Appendix 4, and details of changes to the audit plan at Appendix 5. The Internal Audit Q1 summary is included as Appendix 6. Appendices 2 to 4 exclude Elizabeth line audits, details of which are included in the Elizabeth Line Programme Assurance Q1 Report elsewhere on the agenda.

5.4 The Internal Audit Q1 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, conclusions and information on overdue audit actions.

- 5.5 Nine audit reviews were completed in Q1. Five audit reports and four memos were issued (details are set out in Appendix 2). The business has accepted the findings for all audits and is working to close them out in agreed timescales. Of the five audit reports issued, three were rated as 'Adequately Controlled' and two rated as 'Requires Improvement'.
- 5.6 The 'Requires Improvement' audits were both in the Technology and Data area. The actions from the Software Licence Management audit have been accepted but resources need to be found to ensure the actions can be implemented.
- 5.7 The review of Cubic User Access Management controls found that the contractor has taken steps to define procedures and controls in relation to access over the Central System (CS). The contractor does not pro-actively monitor logs of potentially sensitive activity by privileged accounts, which not only administer access but amend transactions. TfL and the contractor have agreed to establish mechanisms for actively monitoring privileged user activity and the review process of the CS by the end of September 2022. We also found that the contractor does not periodically validate user access levels on the CS to ensure that individuals have a level of access which is in line with their job roles. An internal review of Cubic end user access will be established and the results of user access reviews will be documented and reported to TfL as part of the monthly service update/touchpoint meetings.
- 5.8 The 2021/22 end year carry-over of 13 audits has now been reduced to five, with all but one now going through internal review and draft report preparation. The one still in fieldwork is on hold and the implications of this have been discussed with the business area.
- 5.9 There were two changes to the audit plan (excluding Elizabeth line) in Q1: one new audit was added to the plan and one deferral. Details are set out in Appendix 5.

### **Mayoral Directions**

- 5.10 The Mayor is permitted to issue to TfL general directions as to the manner in which TfL is to exercise its functions, or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.
- 5.11 The Mayor makes Mayoral Directions through Mayoral Decisions, which are published on the [GLA's Decisions Database](#). A summary of current Mayoral Directions to TfL is maintained on the [How we are governed](#) page on our website. Mayoral Directions to TfL are reported to the relevant Board Committees for discussion as soon as possible after they are received by TfL or published. Mayoral Directions are also reported to this Committee so it can consider if the annual audit plan has appropriate audit resource to provide assurance on TfL's work in implementing Mayoral Directions.
- 5.12 There has been one direction that was issued in May 2022 after the preparation of the last Committee meeting papers:

- (a) The Mayor is proposing to revise his Transport Strategy (MTS) to provide for the role of road user charging in addressing the triple challenges of toxic air pollution, the climate emergency and congestion and, as a first step, the potential London-wide expansion of the Ultra Low Emission Zone. The Mayor directed TfL to draft the revised MTS text; arrange for an integrated impact assessment to be produced; and consult the public and stakeholders on his behalf. In addition, the Mayor issued supplementary guidance to TfL as to the consultation. The consultation ran from 20 May to 29 July 2022 (MD2987).

## **Management Actions**

- 5.13 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 as well as information on overdue actions at the end of Q1. There were 75 actions closed in Q1 compared with 66 last quarter. Progress towards closing out actions is discussed with stakeholders regularly and there are valid reasons for those that are overdue. The Director of Risk and Assurance also discusses overdue actions with Chief Officers in her quarterly meetings with them.

## **Internal Audit Plan Phase 2**

- 5.14 The audit plan has been updated for the work we intend to carry out in the second six months of 2022/23. This is attached as Appendix 7. Also included is an indicative plan for the first six months of 2023/24. This is subject to regular review and provides the level of flexibility to meet any changes to the organisation's assurance needs. The 'bubble diagram' at the end of the appendix provides an overview of all our proposed activity over the next 18 months. The detailed plan also shows the areas where there will be second line of defence audit or review activity carried out by other assurance teams, both within Risk and Assurance and the Independent Investment Programme Advisory Group (IIPAG).
- 5.15 The plan has been produced through our evaluation of business risk and activity and our interaction with the business. We have also used intelligence gathered through our work across TfL. The starting point for the plan is a review of TfL Enterprise Risks and that key controls that have been identified to address these risks. At the time of audit planning a revision of the Level 0 risks was underway so we have aligned our plan to the current Level 0 risks. We will review the risk profile of the plan when the new risks are launched across TfL. We also focus our work on significant areas of business change and areas where we have found significant issues in the past.
- 5.16 The plan is built in three layers which are risk driven, core and business led. As TfL is still working through a period of change it is crucial that the control environment and key controls are sound and operating as intended. As a result, the second half of the plan is mainly risk and core driven. This will provide the Head of Internal Audit with the necessary coverage to make an evidence-based opinion on the operation of internal control, risk and governance at financial year end.

5.17 Finally, the plan is based on current staff levels within the Internal Audit team. The rolling audit plan was introduced to reduce the number of changes to the plan and limit the carry over at year end. At the end of Q1 there are three changes rather than the 11 in Q1 last year. As a result of these process changes we continue to have a plan that is deliverable within our current resources and prioritised in terms of risk, business need and assurance over key controls.

### **Quality, Safety and Security Assurance (QSSA)**

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

5.19 A summary of work carried out by QSSA in Q1 is included as Appendix 8.

5.20 A total of 10 second line QSSA audits were delivered in Q1, this is 17 per cent of the six-month programme for Q1-Q2 and is therefore behind the target of 50 per cent for Q1. However, early data from the first few weeks of Q2 shows progress increased to 43 per cent and therefore recovery is underway. Of the 10 issued audits in Q1, six were 'integrated systems' audits of London Underground Operational and Maintenance teams assessing compliance with a range of management system requirements and are not given an audit conclusion. The remaining four audits were all concluded as 'Adequately Controlled' with good levels of compliance and minor issues and actions agreed. The audits covered: 'Management of Network and Information System Regulations Compliance'; 'DLR Rolling Stock Door System Maintenance'; 'Signals Authority to Work Certificates Process'; and 'Hammersmith Service Control Centre Maintenance and Control of Software Configuration'.

5.21 No audits were cancelled or deferred in Q1.

5.22 Over the last six periods there has been a steadily increasing trend of actions closed on time. Equally there has been a marginal increase in the number of actions granted extensions (this has increased from 13 per cent to 15 per cent over the past six months) extensions are only granted in compliance with our procedure. As of Q1 there are currently 56 overdue actions, down from 68 in the last quarter, out of a total of 105 open actions which is a positive step. It is noted that the actions from three audits in four different areas of TfL make up 50 per cent of the total number of overdue actions. Actionees receive routine reminders from the Audit team and overdue actions are included within reports to the Executive Committee and individual Chief Officer reports which the Director of Risk and Assurance discusses with them at her quarterly meetings.

### **Project Assurance**

5.23 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 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.

- 5.24 The Project Assurance team also conducts reviews of the sub-programmes to inform annual requests for Authority at the Programmes and Investment Committee.
- 5.25 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.
- 5.26 Four sub-programme reviews were undertaken during Q1, with IIPAG involved in three of these. In the same timeframe 12 project assurance reviews were undertaken, with IIPAG involved in four of these. These reviews gave rise to 50 recommendations being made by Project Assurance of which two were critical issues relating to funding. IIPAG made 13 recommendations none of which were critical.
- 5.27 A summary of the work completed by Project Assurance in Q1 is included as Appendix 9.

### **Customer Feedback**

- 5.28 QSSA issued eight customer feedback questionnaires in Q1, seven of which were returned (87.5 per cent) with an average score of 92.9 per cent satisfied. Internal Audit issued seven questionnaires of which three were returned (43 per cent). Satisfaction rates are 88 per cent with no 'poor' or 'very poor' ratings. A summary of all customer feedback forms is included as Appendix 10.
- 5.29 A thorough review of the Customer Feedback Form (CFF) process has been completed, with a number of improvements identified. This includes closer alignment of the questions and rating method, follow up process when CFFs are not returned and improved ownership of the process. Once implemented, these improvements will be monitored to see if the response rate does increase.

## **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 Q1, including information on significant closed fraud investigations, is included as Appendix 11.
- 6.3 Of the three cases closed in Q1, one resulted in the dismissal of a TfL contractor and another was referred to law enforcement with a bus company employee's contract also being terminated. The third case identified no fraud but was referred to Internal Audit, who identified a number of recommendations for control

improvements in the area concerned which have been accepted and are being implemented.

- 6.4 The team continues to raise awareness of fraud and corruption across TfL through targeted sessions and presentations. During Q1, members of the team supported colleagues in Taxi and Private Hire (TPH) with a review of the counter-fraud measures introduced at the TPH candidate assessment centre as a result of an identified 'imposter' fraud in 2021.
- 6.5 Details of significant new and ongoing fraud investigations during Q1 are included in the paper on Part 2 of the agenda.

## **7 Resources**

- 7.1 At the end of Q1 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 with other approvals being sought in Q2.
- 7.3 IIPAG recruitment for the main group and TTLP sub-group has begun and appointments will be made in the autumn.

## **8 Control Environment Trend Indicators**

- 8.1 The Q1 indicators are included as Appendix 12.

### **List of appendices to this report:**

- Appendix 1: L0 Risks
- Appendix 2: Internal Audit reports issued in Q1 2022/23
- Appendix 3: Work in Progress at the end of Q1 2022/23
- Appendix 4: Work planned for Q1 2022/23
- Appendix 5: Cancelled/ deferred/new audits from 2022/23 audit plan
- Appendix 6: Internal Audit Q1 summary
- Appendix 7: Internal Audit Plan Part 2 – October 2022 to March 2023
- Appendix 8: Quality, Safety and Security Assurance Q1 summary
- Appendix 9: Project Assurance Q1 summary
- Appendix 10: Customer Feedback Q1 summary
- Appendix 11: Counter-Fraud and Corruption Q1 summary
- Appendix 12: 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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