

**Date: 30 November 2022**

**Item: Risk and Assurance Quarter 2 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 2 of 2022/23 (26 June 2022 to 17 September 2022) (Q2), the work in progress and planned to start, and other information about the Directorate's activities.
- 1.2 A paper is included on Part 2 of the agenda, which contains 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.
- 1.3 This report also provides an update on assurance activity and the Integrated Assurance and Audit Schedule for TTL Properties Limited (TTLP) which from Quarter 3 of 2022/23 (Q3) will have its own paper on the Committee's agenda.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the report and the exempt supplementary information on Part 2 of the agenda and approve the updated Audit Plan set out in Appendix 1.**

### **3 Director Update**

- 3.1 This is the second 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 (QSSA); Project Assurance (PA); and Counter-fraud and Corruption (CFC). Detailed Elizabeth line assurance work is covered elsewhere on the agenda.
- 3.2 The Audit Plan has been updated to reflect the new list of Enterprise Risks and all assurance work presented to Panels and Committees will be mapped against these risks from Q3. The Committee is asked to approve the updated Audit Plan as set out in Appendix 1.

- 3.3 The planning for the 2023/24 QSSA second line audit programme will be structured around the TfL management system, providing a more structured, intelligence driven approach with fewer subjective requests. This will also provide a clearer picture of what key controls are assured and any gaps in assurance.
- 3.4 An Integrated Assurance Framework for TTLP based on the three lines of defence model is now in place. The first Integrated Assurance and Audit Schedule was submitted and approved by the Land and Property Committee on 18 October 2022 (see Appendix 11). Independent Investment Programme Advisory Group (IIPAG) recruitment for the TTLP sub-group has been completed and the three new members have now started and have been briefed on the key issues and how their work fits into the Integrated Assurance Framework. An initial Enterprise Risk workshop was completed and details of outputs are set out in the paper on Part 2 of the agenda.
- 3.5 In PA reviews during Q2, availability of staff resources continues to be the primary risk to project delivery. The PA team continues to focus on reviewing the strength of business cases and their ability to demonstrate good value for money, and the build-up of Estimated Final Costs and their robustness.
- 3.6 Members of the CFC team met with British Transport Police senior officers and representatives from the Train Operating Companies in response to ongoing challenges with reporting and progressing cases of financial crime. The meeting helped all parties to understand the issues, and the group agreed to a number of actions which, once implemented, will ensure reported cases are progressed in line with agreed new processes. The group will meet again on 29 November 2022.

## **4 Enterprise Risk Management**

- 4.1 The following Level 0 (L0) Enterprise Risks reviews were facilitated by the team in Q2:
- (a) Environment including climate adaptation (ER3); and
  - (b) Changes in customer demand (ER9).
- 4.2 The Executive Committee has agreed a new 12-month rolling schedule of reviews for the new L0 risks. The papers for these risks will also be discussed at the relevant Panels and Committees during the next 12 months.
- 4.3 The work to update the risk appetite process is ongoing and proposals will be presented to TfL's Executive Committee and this Committee when completed.
- 4.4 Following the changes to L0 risks, we are now conducting an extensive review of Level 1 risks to ensure they are aligned with the Vision and Values roadmaps in line with the new Enterprise Risk Framework. Work has also started to consolidate thematic risks which were previously identified across several business areas as this will help cross-functional working.
- 4.5 A list of the L0 risks is included in Appendix 2.

## 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 Q2 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 Q2 is at Appendix 3, audits in progress at Appendix 4 and work planned to start in Q3 at Appendix 5. The Internal Audit Q2 summary is included as Appendix 6. Appendices 3 to 5 exclude Elizabeth line audits, details of which are included in the Elizabeth Line Programme Assurance Q2 Report elsewhere on the agenda.

5.4 The Internal Audit Q2 summary, included as Appendix 6, includes highlights from work completed during the quarter. It also provides an overview of the delivery of the Audit Plan, a summary of the reports issued, conclusions and information on overdue audit actions.

- 5.5 Ten audit reviews were completed in Q2. Five audit reports and five memos were issued (details are set out in Appendix 3). 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, one was rated as 'Adequately Controlled' and four rated as 'Requires Improvement'.
- 5.6 The 'Requires Improvement' audits included two in the Technology and Data area. Specifically on Data Loss Prevention and Review of Datacentres. The remaining two included one in the Delivery of Key Projects and Programmes covering Benefits Realisation and one in Financial Sustainability covering the Group portfolio tracking process.
- 5.7 The 2021/22 year end carry-over of 13 audits has been reduced to one, and this has now gone through internal review and the draft report is in preparation.
- 5.8 There were no changes to the Audit Plan during Q2.

### **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 rolling periods as well as information on overdue actions at the end of Q2. There were 42 actions closed in Q2. Progress towards closing out actions is discussed with stakeholders regularly and there are valid reasons for those that are overdue. The team are actively working with the business to close any actions that are over 100 days overdue. The Director of Risk and Assurance also discusses overdue actions with Chief Officers in her quarterly meetings with them.

### **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 were no new Mayoral Directions during Q2.

### **Quality, Safety and Security Assurance**

5.13 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 (part of the security assurance work). Audit reports issued by the team follow a similar system of audit conclusions and priority ratings for issues as the Internal Audit team.

5.14 A summary of work carried out by QSSA in Q2 is included as Appendix 7.

5.15 A total of 29 QSSA audits were completed in Q2, this is a substantial improvement on the Quart 1 of 2022/23 (Q1) performance of 10 audits completed. At the halfway point of the year, the team are on track to meet the end of year target. All audits issued have an agreed programme actions that are tracked to completion.

5.16 Three audits were concluded as 'Poorly Controlled':

(a) London Underground (LU) Pumps Competence Management: Key elements of the Pumps competence management system were not in place; it was therefore not possible to assure that those maintaining the assets are deemed competent to do so.

(b) LU Civils Competence Management: Non-conformances identified in the previous audit remain in relation to the document and quality control processes. A key contributor to this is the continued absence of Internal Verification activities and a key Competency Assurance and Quality Manager role being vacant.

(c) LU Off Track Drainage Management: The location of all assets could not be verified and some surveys or inspections were not completed as required.

5.17 Three audits were concluded as 'Requires Improvement' and all had agreed recommendations and action plans in place:

(d) LU Fire Safety Compliance: This audit was requested to measure progress against an improvement plan. Significant progress has been made to improve the governance of fire safety; however further process improvements are required to ensure their effectiveness.

(e) London Overground Alstom Depot Competence Management: Gaps had been identified in the effective control and review of risks, and the assurance of training and competence of staff involved in the movement of rail vehicles within the depot. It could not be assured that actions raised from previous local investigations and audits had been completed due to the robustness of the tracking by local management.

(f) LU Power Competence Management: Some requirements of R0623 A6 'LU Competence Management System', and PR0200 A2 'Power & Electrical – Competence and Licensing', have not been satisfied. This affects compliance with Office of Rail and Road guidance on competence management systems.

- 5.18 A common issue was identified in these and other competence audits where the quality or absence of a 'risk-based training needs analysis' (RBTNA) weakened the competence management system and assurance or verification arrangements. This was raised with the Skills and Development team who will provide the resource and methodology to work collaboratively with the technical specialist maintenance teams to ensure the RBTNA are correctly recorded and inform assurance activities.
- 5.19 Fourteen audits were concluded as 'Adequately Controlled' or 'Well Controlled'. Nine Integrated system audits were undertaken and not rated (as they cover a broad range of subjects and risks which makes conclusions misleading). One audit, 'LU updating of track training materials', was cancelled in Q2. The sponsor agreed that the known issue was the absence of a process and it was therefore not possible to measure compliance.
- 5.20 In Q1 and Q2 the QSSA team have been working on an improved approach to audit planning for 2023/24 with key stakeholder colleagues in TfL. The new approach will structure QSSA assurance planning and reporting around the management system content for Engineering, Maintenance, Safety, Health and Environment (SHE) and Security teams. Using this approach there will be a direct link between assurance activity, TfL's key risk controls and key legal requirements.
- 5.21 The method used has been to identify all applicable procedures in the Engineering and SHE management systems and mapping these out on spreadsheets, split by discipline. The results of previous audits have been logged against the applicable procedure and location using colour coding to indicate the conclusion. The end result shows both trends in conclusion and also where assurance activity has (or has not) been deployed. As audits are completed additional assurance conclusions will be added to provide a more comprehensive picture. This should facilitate more intelligence driven audit planning meetings and also provide better data to inform risk ratings and where further work may be required.
- 5.22 Planning work in this way provides a more proactive approach, ensuring the full range of subjects and requirements in the management system are considered and reducing the reactive influence of known problems or recent issues. Similarly, by reporting assurance against the management system it will show common trends and themes across different teams and highlight any subject areas that are not currently being assured. A fundamental requirement is that this model has the ability to incorporate risk and performance data from stakeholders and also reflect where assurance is provided by other teams or systems to ensure efficiency of resource.
- 5.23 In Q2 there was a small increase of two per cent in the number of extensions granted and the number of actions closed on time compared with Q1 although the six month trend is a decreasing number of extensions granted. While there has been a modest reduction in the total number of overdue actions from 56 to 45, the number of actions that are more than 100 days overdue has reduced from 28 to 22. This has been helped by active monitoring by the Chief Operating Officer's office.

## **Project Assurance**

- 5.24 The PA 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 assurance 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 programmes are reviewed. The IIPAG Quarterly Report is included elsewhere on the agenda. Reports from PA reviews are considered alongside the Authority request at the programme governing group or operating business group depending on the size of the project.
- 5.25 The team also conducts reviews of the programmes to inform annual requests for authority at the Programmes and Investment Committee.
- 5.26 PA reviews do not carry an overall conclusion in the same way as audit reports, however, issues raised may be designated as critical issues. The 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.
- 5.27 Five programme reviews were undertaken during Q2, with IIPAG involved in all five. In the same timeframe seven project assurance reviews were undertaken, with IIPAG involved in four of these. These reviews gave rise to 42 recommendations being made by PA including six critical issues being raised. IIPAG made 23 recommendations including two critical issues. The critical issues raised related to funding availability, lack of clear justification for proceeding with works, robustness of estimates, and the impact to operations of a deteriorating asset base.
- 5.28 A summary of the work completed by PA in Q2 is included as Appendix 8.

## **Customer Feedback**

- 5.29 QSSA issued 21 customer feedback questionnaires in Q2, nine of which were returned (42.9 per cent) with an average score of 100 per cent satisfied, the other 12 responses have been chased. Internal Audit issued three questionnaires of which none were returned. A summary of all customer feedback forms is included as Appendix 9.

## **6 Counter-fraud and Corruption**

- 6.1 The CFC team carries out investigations in all cases of suspected and alleged fraud. They also carry out a proactive programme of fraud awareness, prevention and detection activities designed to minimise TfL's exposure to fraud risk.
- 6.2 A summary of the team's activities during Q2, including information on significant closed fraud investigations, is included as Appendix 10.
- 6.3 Of the six cases closed in Q2, one case was referred to line management for internal disciplinary procedures, three further cases were referred to law enforcement, one of which resulted in the conviction of a customer for submitting fraudulent service delay refunds (reported in Q1 papers). Two other cases were closed and resulted in no further action.

- 6.4 The team continues to raise awareness of fraud and corruption across TfL through targeted sessions, presentations and other communications. In August, members of the team also prepared a series of social media 'fraud awareness and reporting' messages for LinkedIn, Twitter and Facebook. The messages were released on the same day, across the platforms, by the TfL Social Media team and were designed to remind members of the public about our 'zero tolerance approach' towards fraud and corruption, and encourage the reporting of suspicions of fraud through the various existing mechanisms.
- 6.5 Details of significant new and ongoing fraud investigations during Q2 are included in the paper on Part 2 of the agenda.

## **7 TTL Properties Limited**

- 7.1 Assurance activities have commenced for TTLP. The Integrated Assurance Framework is based on a Three Lines of Defence model comprising:
- (a) Line 1 – Management functions of TTLP and key interfaces;
  - (b) Line 2 – Project and Programme Assurance and QSSA;
  - (c) Line 3 – TfL Internal Audit and a sub-group of IIPAG (IIPAG-TTLP).
- 7.2 Briefings have taken place with the TTLP senior leadership team to identify key issues. Priorities for Line 2 and 3 assurance in the next two quarters are set out in Appendix 11.
- 7.3 IIPAG-TTLP will focus on the key areas identified as part of the Integrated Assurance and Audit Schedule and support continuous assurance.
- 7.4 For Q3, assurance on TTLP will be reported in a separate paper on the Committee's agenda so more detailed information can be provided.

## **8 Resources**

- 8.1 At the end of Q2 the Directorate was carrying 10 vacancies: four in Internal Audit, one in PA, two in QSSA, two in CFC and one in Business Support.
- 8.2 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 five of these roles (two in Internal Audit, one in QSSA and two in CFC) with other approvals being sought in Q3.
- 8.3 A permanent appointment has been made to the Head of Project Assurance role and a new QSSA auditor started.
- 8.4 Where suitable we also use secondments to develop our staff. Currently we have six people on secondments of which two are within Risk and Assurance and four are outside the Directorate.
- 8.5 Approval has also been given for three apprentice roles: two in Internal Audit and one in Enterprise Risk.



## **9 Control Environment Trend Indicators**

9.1 The Q2 indicators are included as Appendix 12.

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

Appendix 1: Internal Audit Plan – September 2022 to March 2023 (Phase 2) mapped against new L0 Enterprise Risks

Appendix 2: L0 Risks

Appendix 3: Internal Audit reports issued in Q2 2022/23

Appendix 4: Work in Progress at the end of Q2 2022/23

Appendix 5: Work planned to start in Q3 2022/23

Appendix 6: Internal Audit Q2 summary

Appendix 7: Quality, Safety and Security Assurance Audit Q2 summary

Appendix 8: Project Assurance Q2 summary

Appendix 9: Customer Feedback Q2 summary

Appendix 10: Counter-Fraud and Corruption Q2 summary

Appendix 11: TTLP Integrated Assurance and Audit Schedule

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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