

Date: 5 June 2023

Item: Risk and Assurance Quarter 4 Report 2022/23

This paper will be considered in public

1 Summary

- 1.1 This report informs the Committee of the work completed by the Risk and Assurance Directorate during Quarter 4 of 2022/23 (11 December 2022 to 31 March 2023) (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 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 financial year 2022/23 to the Committee highlighting the activities of the Risk and Assurance Directorate, namely: Enterprise Risk; Internal Audit (IA); Quality, Safety and Security Assurance (QSSA); Project Assurance (PA); and Counter-fraud and Corruption (CFC). Detailed Elizabeth line and TTL Properties Limited (TTLP) assurance work is covered elsewhere on the agenda.
- 3.2 IA and QSSA both exceeded their 85 per cent target for delivery of their audit plans with an overall figure of 90 per cent. This is a five per cent increase on what was achieved for 2021/22.
- 3.3 In response to an Independent Investment Programme Advisory Group (IIPAG) recommendation to strengthen second line assurance of high value procurement actions, the PA team has commenced a number of detailed procurement reviews focusing initially on contract relets in the Technology and Data and London Underground (LU) infrastructure areas.

- 3.4 PA reviews continue to closely scrutinise the quality of business cases, and there has been a significant focus in Q4 on reviewing submissions that will be submitted to the Department for Transport as part of grant funding applications.
- 3.5 In August 2018, an LU employee reported that a number of social media sites were offering to facilitate applications for 16+ Zip Oyster cards to ineligible members of the public. The cards offered heavily discounted travel across the TfL network. A protracted investigation, carried out by the CFC team, supported by TfL operational staff and the British Transport Police, identified widespread fraud that led to the barring of over 13,500 concessionary Oyster cards. Over 60 social media sites were either blocked or closed down. Ten organised criminal suspects were arrested in connection with the widespread fraud, nine of whom were convicted of conspiracy to defraud TfL. A number of the suspects received terms of imprisonment. TfL was also awarded just over £68,000 in compensation from the convicted suspects. A number of control environment improvements have been implemented to prevent serious fraud within concessionary Oyster card schemes. The assessment of financial loss to TfL, as a result of the fraud is challenging to quantify, but actual losses are believed to be over £2m, with potential losses, had the fraudulently issued cards not been barred, being far higher.

4 Enterprise Risk Management

- 4.1 The following Level 0 (L0) Enterprise Risk reviews were facilitated by the team in Q4:
- (a) Procurement including supply chain (ER5); and
 - (b) Governance and controls suitability (ER10).
- 4.2 The Enterprise Risk Management Framework is being updated to reflect the changes made to the Vision and Values Roadmaps and risks realigned at all levels as required. These changes continue to support cross functional reviews of thematic risks and helps ensure risks are reviewed pan-TfL which helps break down silos across the business.
- 4.3 Work has started to revamp the whole Level 1 process as that had historically been broken down at organisation level. Workshops have taken place or in the process of being planned with all Chief Officer areas with the aim of completing the Level 1 refresh by 31 March 2024 at the latest.
- 4.4 A list of the L0 risks is included in Appendix 1.

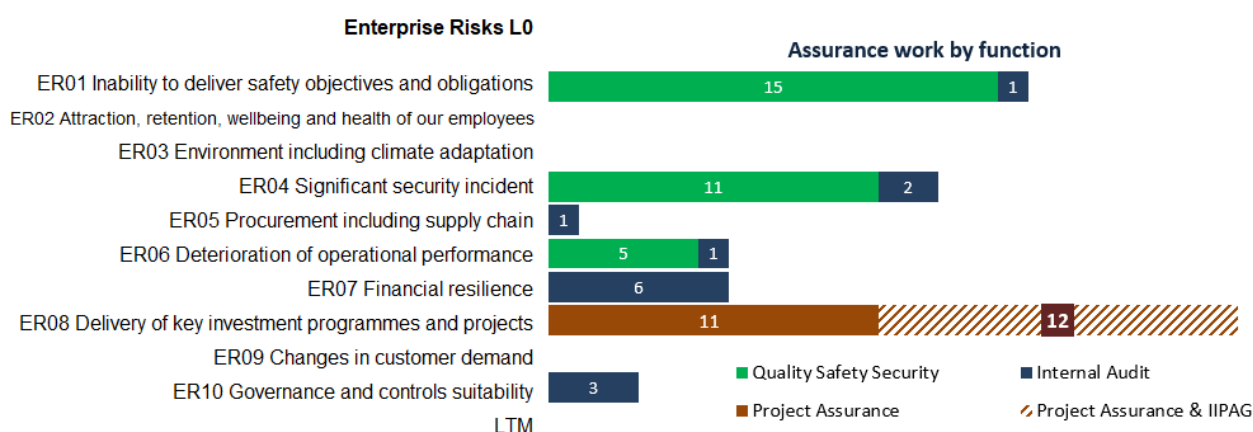
5 Audit and Assurance

- 5.1 In TfL, assurance is delivered in accordance with the 'three lines of defence' model:
- (a) First line of defence – control and monitoring arrangements carried out by the functions responsible for managing the risks/controls;

- (b) Second line of defence – typically assurance reviews, audit and inspection regimes carried out by teams separate from those responsible for managing the risks/controls, but reporting through the TfL management hierarchy; and
- (c) Third line of defence – fully independent audit and review activities, typically with a strategic focus, and reporting to the Executive Committee, this Committee and other Committees and Panels.

5.2 Figure 1 below indicates the assurance activity for 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).

Figure 1 – Assurance activity mapped to Enterprise Risk



Internal Audit

5.3 The IA team completed 14 audits (including Elizabeth line and TTLP) in Q4, resulting in the delivery of 93 per cent of the annual plan. The team has exceeded the target of 85 per cent for this year. Of the audits issued one was rated 'Poorly Controlled', six 'Requires Improvement', three 'Adequately Controlled' and four memos were issued. More detail on IA work is provided below and in Appendices 2, 3, 4, 5 and 6.

5.4 We continue to see weaknesses in document management, record keeping and clear audit trails. The completion of documentation by hiring managers for executive recruitment was not always timely. We found that the Crossrail project team did not agree arrangements for the transfer of hardcopy documentation needed for continuing operations to TfL. There was a lack of documentation to support the segmentation process exercise in the management of key suppliers audit, which included a strategy/business plan or stakeholder plan. This increases TfL's exposure to gaps in information transfer and the potential loss of corporate memory.

5.5 Instances of process not aligning with established procedure were identified in three audit assignments. We found that the selection and assessment processes for executive level recruitment (including the way Taleo is used) differ from those set out in the pan-TfL Hiring Managers Toolkit. There are out of date and missing procedures and manuals which no longer reflect the current situation for invoicing third parties at Victoria Coach Station.

- 5.6 We have identified inconsistencies in the way in which risks are both identified and managed. Our audit of obsolescence of critical operational systems on the Elizabeth line found that there was no holistic view or end to end view of obsolescence risk across the line. In accordance with TfL Enterprise Risk Management procedure Accounts Payable (AP) is required to formally manage its risks by identifying, assessing, recording and managing them.
- 5.7 On a more positive note we found that the implementation of the new Safety, Health and Environment (SHE) Management System has been managed effectively by the project team who have maintained robust review processes throughout. Our review of controls over non-competitive transactions below £100,000 found that the Procurement and Commercial team have made progress in improving the control environment for single source procurements. Despite the outdated system currently in use for creating third party invoices for coach operators, Victoria Coach Station has robust processes in place to manage third party invoicing. There is good segregation of duties and detailed cross checking.
- 5.8 We reviewed the Fit for the Future programme and found that it had delivered ongoing financial benefits to TfL through reducing the operating costs of LU stations. The majority of the original predicted changes have been achieved and now the one-off costs have been absorbed into the Fit for the Future staffing model this will financially benefit TfL into the future. We also found that there are effective controls in place for managing most of the key risks associated with AP processes. The introduction of SAP Ariba has strengthened the controls relating to the registration and maintenance of suppliers. It also provides an opportunity to review and strengthen AP processes.

Management Actions

- 5.9 The team monitors the completion of all IA management actions and confirms whether management has adequately addressed them. The percentage of actions closed on time has increased from 19 to 23 per cent while the percentage of actions extended has remained steady at 53 per cent.

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 Since the last report to the Committee there has been one new Mayoral Direction to TfL.

MD3097 23/03/23	Further financial support fund for Seven Sisters Market traders Seven Sisters Market is an indoor market consisting of 38 traders and plays a vital role in London's Latin American community as a specialist, culturally specific amenity. The market was housed in a TfL owned building that had to close. As the traders were unable to trade, MD2724 directed TfL to provide financial assistance to traders until a temporary market opened at Apex Gardens as part of the Seven Sisters regeneration project. The developer withdrew from the regeneration project and MD2868 directed TfL to provide further financial support while TfL progressed new plans. MD3097 directed TfL to provide further financial support across all traders as they are unable to trade until a temporary market opens.
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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 (PCI DSS) (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 IA team.
- 5.14 A summary of work carried out by QSSA in Q4 is included as Appendix 7.
- 5.15 A total of 31 QSSA audits were completed in Q4. At the end of Q4 89 per cent of the annual plan was completed, which exceeded the 85 per cent target for the year. All issued audits have agreed actions that are tracked to completion.
- 5.16 One audit was concluded as 'Poorly Controlled' and has an agreed action plan in place: 'Management of Civil Engineering Deep Tube Project Asset Data For New Assets'. The management arrangements for registering new assets were not working effectively. This prevented new assets being inspected within the timescales defined by Engineering.
- 5.17 Four audits were concluded as 'Requires Improvement', all had agreed recommendations and action plans in place:
- (a) Handover of Tram Fleet Asset Information from Projects to Maintenance Teams: There have been some improvements since the 2020 audit with the management of risks, reporting and maintenance of master document lists. Non-conformances were raised with the Pathway Stage Gate process which were raised in the audit, and the provision of records for maintenance instructions, training and equipment. All actions have been closed out.
 - (b) Management of Engineering Safety Critical Licensing: There were non-conformances with key requirements of the management system, notably recording hours of work, identifying safety critical workers in staff files, communicating working time limits and implementation of a drug and alcohol testing regime. Actions are agreed and in progress.

- (c) Capital Delivery Systems - Management of Construction (Design and Management) Principal Designer Duties in Asset Renewals Programme: While there was satisfactory evidence of Client and Principal Designer engagement, formal documents relating to assessment and appointment of Principal Designers were not sufficiently evidenced. Improvements to the current procedures and SHE and Project Manager engagement are required.
 - (d) Docklands Light Railway Annual Safety Audit – Worksite Access Method Statements and Fire Management: A number of non-conformances in relation to the fire management and Temporary Approved Non-Compliances requirements were identified.
- 5.18 Three Payment Card Industry Data Security Standard audits were concluded as Non-Compliant and all had agreed recommendations and action plans in place.
- 5.19 Thirteen audits were concluded as ‘Adequately Controlled’ or ‘Well Controlled’. Eight Integrated System audits were undertaken and not rated (as they cover a broad range of subjects and risks which makes conclusions misleading).
- 5.20 Four audits were deferred to the 2023/24 plan: ‘Project Management of Redundant Assets’, ‘PCI DSS Compliance Audit: CPAY (TR3 reader)’, ‘Novacroft Management of Data Security’ and ‘Management of TfL Supplier Cyber Security Risk’.
- 5.21 QSSA provided a consultancy review of the implementation of the new SHE Management System content for health surveillance at the request of the SHE management team. The report provided comment on compliance with legislation and associated guidance, ease of use of the website and materials and anecdotal feedback from users on the effectiveness of the content and communications. The SHE team are working on revisions to the system and communications.
- 5.22 Audit planning for the 2023/24 plan is complete with all audits structured around the management system. The Quarter 1 and Quarter 2 of 2023/24 plan has commenced.
- 5.23 The number of actions closed on time has stayed relatively constant in the past six months ranging between 29-32 per cent (23-32 actions). There has been a slight increase in actions extended from 17-20 per cent (14-22 actions), actions are only extended in accordance with our procedure with management approval. We continue to have increased focus on closing actions in collaboration with the management teams and Chief Officers, this has been effective in reducing the number of actions over 100 days which was six at the end of Q4, a significant reduction from 17 at the end of Quarter 3 of 2022/23 (18 September to 10 December 2022) (Q3).

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) input from IIPAG. However, IIPAG’s agreed workbank 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 PA reviews are considered alongside the Authority request at the sub-programme board or operating business board depending on the size of the project.

- 5.25 Three sub-programme reviews were undertaken during the quarter, with IIPAG involved in all of these reviews. In the same timeframe 19 PA reviews were undertaken, with IIPAG involved in nine of these. In total these reviews gave rise to 68 recommendations being made by PA including four critical issues being raised. The critical issues related to ensuring delivery viability, robust estimating, affordability and demonstrating value for money. IIPAG made 24 recommendations, with no critical issues being raised.
- 5.26 A summary of the work completed by PA in Q4 is included as Appendix 8.

Customer Feedback

- 5.27 QSSA issued 27 customer feedback questionnaires in Q4, seven of which were returned (25.9 per cent) with an average score of 91.1 per cent satisfied. This is a significant reduction in response rate compared with the 93 per cent in Q3 and we continue to follow up for feedback. There was one feedback form which generated all five 'dissatisfied' responses, this has been discussed with the auditor and stakeholder.
- 5.28 IA issued 17 customer feedback forms (CFFs) and five were returned (29.4 per cent), this is reduction on Q3. The average score for those returned was 86.3 per cent. Although we have a follow up process the reduced return rate follows a trend for CFFs being returned in waves. 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 Q4, including information on significant closed fraud investigations, is included as Appendix 10.
- 6.3 Of the nine cases closed in Q4, four cases were referred to law enforcement. One of these four cases resulted in the convictions of nine organised criminals, for supplying concessionary Oyster cards to ineligible members of the public for personal gain. A second case, involving a former LU Customer Service Assistant, resulted in a conviction for computer misuse act offences and fraud. No further action has been taken yet on the other two police referrals. The team continues to raise awareness of fraud and corruption across TfL through targeted sessions, presentations and other communications.
- 6.4 In Q4 the Head of Counter-fraud and Corruption attended the UK Rail Fraud Forum and associated Executive Committee meetings. A UK Rail fraud strategy has now been agreed and all members are disseminating the strategy within their respective organisations, to obtain top level commitment. Each Train Operating

Company is also required to nominate a Single Point of Contact to oversee fraud investigations and maintain a consistency over the quality of referrals to law enforcement. Discussions are continuing with senior officers in British Transport Police to finalise and sign off a Service Level Agreement covering the reporting and investigation of financial crime cases.

- 6.5 Details of significant new and ongoing fraud investigations during Q4 are included in the paper on Part 2 of the agenda.

7 Resources

- 7.1 At the end of Q4 the Directorate was carrying nine vacancies (excluding the three roles we are not backfilling for secondments). The current vacancies are four in IA, two in CFC, one in QSSA, one in Enterprise Risk and one in Business Support. We are in the process of actively recruiting six of these roles (four in IA and two in CFC,) with further approvals being sought as appropriate.
- 7.2 There was a successful recruitment campaign for generalist auditors in Q4 and two auditors will join the team at the end of May.
- 7.3 Where suitable we also use secondments to develop our staff. Currently we have seven colleagues on secondments of which five are within Risk and Assurance and two are outside the Directorate.

8 Control Environment Trend Indicators

- 8.1 The Q4 indicators are included as Appendix 11.

List of appendices to this report:

Appendix 1: L0 Enterprise Risk
Appendix 2: Internal Audit reports issued in Q4 2022/23
Appendix 3: Work in Progress at the end of Q4 2022/23
Appendix 4: Work planned to start in Q1 2023/24
Appendix 5: Changes to the Plan in Q4 2022/23
Appendix 6: Internal Audit Q4 summary
Appendix 7: Quality, Safety and Security Assurance Audit 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

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

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