

Date: 20 September 2023

Item: Risk and Assurance Quarter 1 Report 2023/24

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 1 (Q1) of 2023/24 (1 April to 24 June 2023) 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, approve the Internal Audit Plan 2023/24 Phase 2 set out in Appendix 1 and note the exempt supplementary information on Part 2 of the agenda.**

3 Director Update

- 3.1 This is the first quarterly report for 2023/24 setting out the work undertaken by the various teams within the Risk and Assurance Directorate. This new format provides more cohesive information on that work under the headings of Risk Management, Internal Control and Governance.
- 3.2 Internal Audit delivered three audits in Q1 and detail is included at Appendix 2. The Accounts Receivable audit was rated as 'adequately controlled' and two memos were issued, one with the outcome of the annual TfL Scorecard review and the other was a supplier audit review that was completed at the request of the business. The number of audits delivered in Q1 is lower than last year due, in part, to the limited carry over from 2022/23. In previous years Q1 figures were boosted by the completion of carry over audits which distracted from the delivery of the new plan. At the end of Q1 all audits due in the quarter were either towards the end of fieldwork or in reporting but not where forecast. We are working to smooth out audit delivery over the remaining three quarters of the year.

3.3 The Quality, Safety and Security Assurance (QSSA) team delivered 18 second line audits in Q1 of which none were rated as 'poorly controlled'. Five were rated as 'requires improvement' and all have agreed actions plans in place:

- (a) Projects Asbestos Management;
- (b) TfL Estates Management Health, Safety and Environment Compliance;
- (c) Noise, Nuisance, Vibration Management;
- (d) Revenue Inspection Devices; and
- (e) London Underground Track and Welding.

3.4 There has been no noteworthy change in audit conclusion profile in the past 12 months when broken down by strategic risk or Chief Officer team. Key findings and trends from Integrated Systems audits of London Underground operational teams have been presented to the Stations, Trains and Service Control senior management team to share good practice and where systems level action is required to address the common non-compliances.

3.5 Two consultancy style reviews were completed on Medical Fitness in Buses and TfL Health Surveillance. Both provided recommendations to improve the robustness of the control environment and to promote compliance in the management of colleague and supplier health.

3.6 During Q1, the Counter-fraud and Corruption (CFC) team received 233 referrals, all of which were assessed and disseminated within the 10 working days target. As a result of the referrals seven new full fraud cases are under investigation and a further 36 have been made miscellaneous cases that require the CFC team to carry out further enquiries to assess whether any become a full case. Six full cases were closed during Q1.

3.7 A breakdown of current full fraud cases and their status is shown in the table below.

Chief Office	Start Q1	New Q1	Closed Q1	Under investigation by CFC	With Line Management	With Law Enforcement
Operations	22	2	6	6	5	7
Capital	0	0	0	0	0	0
Customers & Strategy	8	5	0	5	1	7
People	1	0	0	0	0	1
General Counsel	3	0	0	0	1	2
Finance and Procurement	1	0	0	0	0	1
Total	35	7	6	11	7	18

3.8 A CFC investigation into allegations that concessionary Oyster cards (5-10 scheme) were being supplied to ineligible members of the public through a social media platform led to the identification of a suspect providing the fraudulent service. The British Transport Police executed a warrant and seized telephones

linked to the suspected fraud and a number of applications awaiting processing through the Post Office. Cash was seized from the address and further cash restrained in a bank account totalling £80,000. The suspect pleaded guilty to all charges and will be sentenced at a later date following the calculation of losses related to the 288 fraudulent applications identified. The CFC team will be seeking full compensation through the Crown Prosecution Service.

- 3.9 A former Customer Service Assistant was convicted and sentenced at the Royal Courts of Justice to 12 months' imprisonment (suspended for 12 months) for 26 incidents of theft from Passenger Operated Machines. The thefts occurred between March and May 2019 at various London Underground stations. The former Customer Service Assistant was also ordered to carry out 150 hours of unpaid work and pay TfL over £2,500 in compensation.
- 3.10 During this quarter we had three people leave however our recruitment campaigns have been successful and we have 12 new starters including our two Internal Audit apprentices in Q2.

4 Internal Audit Plan

- 4.1 The audit plan has been updated with the work that we intend to carry out in the second six months of 2023/24. The Committee is asked to approve the updated audit plan set out in Appendix 1.
- 4.2 The plan is subject to regular review and provides the level of flexibility to meet any changes to the organisation's assurance needs. The detailed plan also shows the areas where there will be second line audit or review activity carried out by the other assurance teams, both within in Risk and Assurance and the Independent Investment Programme Advisory Group (IIPAG).

5 Risk Management

- 5.1 Understanding and managing risk at all levels within TfL is essential to ensure that we can mitigate the risks as far as is practical and understand our exposure. The Directorate supports the business with Enterprise Risk management at Enterprise (Level 0), strategic (Level 1) and tactical (Level 2).
- 5.2 The following Level 0 Enterprise Risk reviews were facilitated by the team in Q1:
- (a) Significant security incident (ER4);
 - (b) Efficient and high performing supply chains and effective procurement (ER5);
 - (c) Financial Resilience (ER7);
 - (d) Delivery of key investment programmes and projects (ER8); and
 - (e) Governance and control suitability (ER10).
- 5.3 Work on the revised risk appetite approach is ongoing and some further information has been requested by Board Members before it can be finalised.
- 5.4 Level 1 risk identification workshops were held for the following areas: Chief People Officer; General Counsel; Green and Safety; and Procurement and Commercial. Following the approval of these risks by the respective Chief Officers, work is ongoing to develop these risks. Level 1 risk development is also

in progress for Operations, Customer and Security business areas where the risk identification workshops were held in the previous quarter.

- 5.5 Following the IIPAG recommendation to strengthen second line assurance of high value procurement actions, the Project Assurance (PA) team has completed a detailed procurement review focusing on the preparation of tender documentation for a contract relet in the Technology and Data area. Notable findings included clarity of evaluation criteria, and ways to limit process bias towards incumbent suppliers. A review of documentation and processes associated with a new framework in the London Underground infrastructure area started in Q1. Undertaking this new type of assurance is adding value to the procurement process, reducing the risk profile of significant procurements, and providing reassurance to senior management that the processes are robust or suggest improvements to make them so.
- 5.6 A list of the Level 0 risks is included as Appendix 3.

6 Internal Control

- 6.1 Effective internal control is essential to ensure that TfL realises its stated aims and objectives. This is achieved through an internal control system that promotes adherence with policies and procedures, the safeguarding of assets, the prevention and detection of fraud and error, and the accuracy and completeness of financial and non-financial records. The teams in Risk and Assurance assess the appropriateness and effectiveness of, and compliance with, internal controls.
- 6.2 The CFC team has been working with a design and delivery specialist from the Learning and Development team to develop fraud and corruption material for all new starters to TfL. A series of slides and a script have been agreed and are now included in the main Welcome to TfL slide pack. A more detailed offering will also be available on the Digital Welcome to TfL guide, which will be available to all employees. Raising awareness of fraud and corruption and how to report suspicions are two of the many facets of managing the risk of fraud against TfL.

Finance and Procurement

- 6.3 The audit of the adequacy and effectiveness of TfL's Accounts Receivable process found that controls are in place and operating effectively. The only medium rated finding related to some senior managers asking staff that report to them to be set up as substitutes for approving credit notes in the event of their absence. This breaches the TfL SAP Substitutes Policy and as a result the policy has been revised so that downward delegation is no longer allowed.

Safety

- 6.4 The QSSA team found in their review of projects asbestos management that there was good awareness among Project Managers of the internal asbestos procedures. Where non-TfL/external Principal Contractors were appointed the requirements of this procedure were unclear. As a result the procedure will be amended so that Works Manager/Project Manager responsibilities are clearly defined and consistent with the level of risk and control when TfL is not the Principal Contractor.

7 Governance

- 7.1 Governance is the combination of processes and structure that the Board puts in place to inform, direct, manage and monitor TfL's activities to ensure the achievement of objectives. The Risk and Assurance teams look at how this is supported and works in practice at an organisational level. We reported at year end that our work often identified poor records management, a lack of clarity over roles and responsibilities and compliance with established procedures. We continue to raise this through wider discussion with the business so that we can effectively target future work.

Assurance and Investment programme

- 7.2 The primary source of assurance for the delivery of the TfL Investment Programme continues to be through the work of the PA team and IIPAG. PA and IIPAG consider that there is sufficient scrutiny of the Investment Programme in TfL through the various portfolio meetings as well as the Executive Committee Investment sub-group, and at the Programmes and Investment Committee.
- 7.3 The PA team has continued its programme of targeted assurance interventions, including reviews associated with annual sub-programme submissions to the May meeting of the Programmes and Investment Committee, plus ongoing continuous assurance activity. From this work recommendations have been made and themes identified and collated. Findings relating to procurement, commercial and affordability have been notable this quarter. Resources have continued to be monitored and generally an improving situation has been observed, although challenges remain, with certain roles (including certain specialist engineering and technical roles) still being in short supply.
- 7.4 Business cases continue to be reviewed in detail in most PA reviews. New initiatives and tools have started to improve aspects of business cases but areas for improvement still routinely arise in reviews. In particular the need to better demonstrate how TfL will deliver benefits aligned to the project objectives – the “golden thread”. Additionally significant effort has been involved in reviewing business cases to be submitted to the Department for Transport as part of applications for funding under the Major Road Network programme.
- 7.5 IIPAG have worked with PA on programme reviews and reviews of higher value projects. They have continued to progress their programme of cross-cutting reviews this quarter. Fieldwork has been completed on the Delivery of Renewals review, and the Effectiveness of Pathway Gates Part 1 (Projects) review has commenced. Respective areas of TfL continue to work addressing recommendations from earlier cross-cutting work.

Assurance of the Elizabeth line

- 7.6 The commencement of the 24 trains per hour timetable (Stage 5C) operation of the Elizabeth line in May 2023 completed the final stage of the train service operations linking Abbey Wood and Shenfield in with Heathrow and Reading via the central operating section. PA's process of regular interaction with the Crossrail team concluded with a summary of PA's position on Crossrail's response to the Project Development Agreement obligations and concluded that

Crossrail had undertaken its obligations as set out in the Project Development Agreement and had not transferred any residual risk to TfL as a result.

7.7 Going forward the focus for future Elizabeth line assurance within PA will include the following:

- (a) a targeted assurance review to align with the TfL project completion stage gate following financial close as agreed as part of the recent Infrastructure and Projects Authority review;
- (b) targeted assurance reviews on the Elizabeth line capital renewal works programme (annual), and on capital projects exceeding £5m in value, selected based on risk and project lifecycle stage; and
- (c) continuous assurance monitoring of projects, and of the reliability performance of the rolling stock and a number of key contracts.

Security Governance

7.8 The QSSA team provided a consultancy piece on the continuation and development of security governance and culture maturity within TfL. The report was provided to the Compliance Policing Operations Security team and was presented at the relevant Executive Committee sub-group. Overall, the report concluded that there is evidence of the maturing of TfL security governance and culture, primarily due to the establishment of a pan-TfL security policy, strategy, governance meetings, communications plans and performance metrics. The report provided recommended actions that will assist with TfL's work to improve security culture and governance. Many of the recommended actions address either the revision of materials or the communication of the new strategies and alignment across the TfL security teams. Other actions identify where other scope items could be expanded to reflect or seek good practice from organisations such as the Department for Transport.

8 Programme Changes

8.1 No internal audits or QSSA audits were cancelled or deferred in Q1. One additional internal audit of one of our suppliers was completed at the request of the Chief Finance Officer.

9 Management Actions/Recommendations

9.1 A breakdown of overdue management actions and recommendations across Chief Officers and Risk and Assurance teams is included as Appendix 4.

9.2 Appendix 5 provides an analysis on a rolling four quarter basis of management actions from Internal Audit and QSSA work and PA recommendations.

10 Customer Feedback

10.1 In Q1, the QSSA team received five customer feedback responses out of eight sent out, with a 100 per cent satisfaction. In the last 12 months, 35 responses were received out of 70 issued with an average 98 per cent satisfaction score. Internal Audit issued two customer feedback forms, both were returned with a satisfaction rate of 94 per cent.

11 Mayoral Directions

- 11.1 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.
- 11.2 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.
- 11.3 Since the last report to the Committee there has been one new Mayoral Direction to TfL.

MD3142 11/07/23	Withdrawal of Day Travelcards on TfL Network TfL's funding settlements with Government requires TfL to generate between £0.5bn and £1bn of additional net revenue per annum from 2023. TfL's assessment of Day Travelcards is that it is effectively under-funded by the Travelcard Agreement at a total cost of approximately £40m a year. As a fairer share of the income from Day Travelcards is yet to be agreed with the Train Operating Companies, the Mayor has directed TfL to give six-months' notice to terminate the relevant provisions of the Travelcard Agreement. Should the Department for Transport and Train Operating Companies propose an alternative arrangement during this notice period, which is financially acceptable to TfL and allows it to meet the requirements of its funding settlement with Government, this notice could (by agreement) be retracted and Day Travelcards remain available.
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List of appendices to this report:

- Appendix 1: 2023/24 Internal Audit Plan – October 2023 to March 2024 (Phase 2)
- Appendix 2: Internal Audit reports issued in Q1 2023/24
- Appendix 3: Level 0 Enterprise Risks
- Appendix 4: Overdue Actions and Recommendations by Team
- Appendix 5: Analysis of Management Actions and Recommendations by Category and Team

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

List of Background Papers:

None

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