

Audit and Assurance Committee

Date: 29 November 2023

Item: Risk and Assurance Quarter 2 Report 2023/24

This paper will be considered in public

1 Summary

- 1.1 This paper informs the Committee of the work completed by the Risk and Assurance Directorate during Quarter 2 (Q2) of 2023/24 (25 June to 16 September 2023) and other information about the Directorate's activities. This paper excludes work undertaken on Places for London as that is covered elsewhere on the agenda.
- 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 paper and the exempt supplementary information on Part 2 of the agenda.**

3 Director Update

- 3.1 This is the second quarterly report for 2023/24 setting out the work undertaken by the various teams within the Risk and Assurance Directorate.
- 3.2 Internal Audit delivered seven audits in Q2 and detail is included at Appendix 1. Two audits were found to be 'adequately controlled' and one memo was issued. Four reports were rated as 'requires improvement':
 - (a) SAP business expense eForms;
 - (b) London Transport Museum financial controls;
 - (c) delegated Procurement Authority; and
 - (d) processing General Data Protection Regulation (GDPR) data by third parties – low value contracts.

- 3.3 The pace of delivery is improving with a number of audits in reporting at the end of Q2 in addition to those issued. There have been some changes to the plan in terms of delivery dates due to specific requests from the business for new pieces of work. We have also been asked to pause a small amount of work which has affected delivery. We are still confident that we will meet our end of year target and delivery is being closely monitored.
- 3.4 There has been a 10.5 per cent reduction in the number of internal audits completed in the last 12 months compared with the previous year. The distribution of audits by Enterprise Risk and Chief Officer is generally consistent. We have issued three 'poorly controlled' audits over the last 12 months compared to none in the preceding 12 months. Audits rated as 'requires improvement' have increased from 40 per cent to 50 per cent, with those 'adequately controlled' remaining at 18 per cent. The number of memos issued has reduced from 42 per cent to 24 per cent as a result of issuing more reports with an audit rating and tracked management actions.
- 3.5 The Quality, Safety and Security Assurance (QSSA) team delivered 19 second line audits in Q2 of which none were rated as 'poorly controlled'. Four were rated as 'requires improvement' and all have agreed actions plans in place:
- (a) London Underground Management of Lift and Escalator Incidents;
 - (b) Trams Incidents and Accidents Process Compliance;
 - (c) Payment Card Industry Data Security Standard (PCI DSS) Compliance Audit: TfL and London Transport Museum Operations Centre; and
 - (d) PCI DSS Compliance Audit: TfL and London Transport Museum Shop.
- 3.6 There has been a nine per cent reduction in the number of QSSA audits completed in the last 12 months compared with the year prior to that (from 97 to 88 audits). The distribution of audits by Enterprise Risk and Chief Officer is generally consistent across the last two years. Comparing the last two years there has been an increase in the number of 'requires improvement' conclusions in the last four quarters compared with the four quarters prior to that, increasing from 14 per cent to 22 per cent of the total. The biggest difference is the increase in PCI DSS audits concluded as 'requires improvement' and reduction in audits concluded as 'adequately controlled'. Common themes from the PCI DSS audits are employee training, asset records and maintenance of roles and responsibilities during organisational change. Annual training is monitored via TfL's internal eLearning site and reminders are provided by email to ensure colleagues remain up to date with requirements.
- 3.7 During Q2, the Counter-fraud and Corruption (CFC) team received 216 referrals, all of which were assessed and disseminated within the 10 working days target. As a result of the referrals, three new full fraud cases are under investigation and a further 17 have been made miscellaneous cases that require the team to carry out further enquiries to assess whether any should become a full case. Five full cases were closed during Q2.

3.8 A breakdown of current full fraud cases by Chief Officer area and their status is shown in the table below:

Chief Officer Area	Start Q2	New Q2	Closed Q2	Under investigation by CFC	With Line Management	With Law Enforcement
Operations	18	1	3	5	4	7
Capital	0	0	0	0	0	0
Customer & Strategy	13	2	2	5	1	7
People	1	0	0	0	0	1
General Counsel	3*	0	0	0	1	2
Finance	1	0	0	0	0	1
Total	36	3	5	10	6	18

*Following Taxi and Private Hire moving to the Operations Chief Office, the three cases will be reassigned to Operations in Q3 2023/24.

3.9 The CFC team continues to refer offenders for prosecution. In September 2023, a former employee of a supplier was charged by police with one count of fraud by abuse of position and one of theft of £8,800. While working for the supplier, the former employee processed fraudulent refunds on the contactless payment system for travel on London Underground. TfL has successfully reclaimed losses from the supplier under contractual provisions. To date, almost £8,000 has been received of the £8,800 lost, with a further instalment due in Quarter 3 (Q3) of 2023/24 (17 September to 9 December 2023).

3.10 During Q2 we had three people leave the Risk and Assurance Directorate, however our recruitment campaigns have been very successful and we had 10 new starters including our two Internal Audit apprentices.

4 Risk Management

4.1 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).

- 4.2 The following Level 0 Enterprise Risk reviews were facilitated by the team in Q2:
- (a) inability to deliver safety objectives and obligations (ER1);
 - (b) significant security incident including cyber security (ER4); and
 - (c) governance and control suitability (ER10).
- 4.3 Work is in progress to develop ER6 - Deterioration of operational performance. ER7 – Financial resilience has now been fully developed and was presented to the Finance Committee on 11 October 2023.
- 4.4 Further to discussions with the Executive Committee and Board Members, the title of ER4 has been updated from Significant security incident to Significant security incident including cyber security. An update on ER4 is covered elsewhere on the agenda for this meeting.
- 4.5 An informal risk session was held with the Board at the end of August. Updates were presented on the revised risk appetite approach, the refreshed Enterprise Risks and the updated risk dashboard. Further work is being undertaken in relation to risk appetite to reflect the feedback from the meeting.
- 4.6 Progress has been made with the development of green, safety and security, governance and colleague Level 1 risks. Discussions are taking place to enable review of these risks at the relevant Executive Committee sub-groups.
- 4.7 Following the Independent Investment Programme Advisory Group (IIPAG) recommendation to strengthen second line assurance of high value procurement actions, the Project Assurance (PA) team is continuing to undertake detailed procurement reviews. For a significant contract relet in the Technology and Data area, PA has reviewed the supplier selection process following an earlier review of tender documentation. The review was favourable, finding that all activities undertaken and decisions made in the process were appropriate. A review of documentation and processes associated with a new framework in the London Underground infrastructure area is ongoing. Initial findings identified a number of key areas that required improvement, which the team responsible are in the process of addressing. Undertaking this type of assurance continues to add value to the procurement process, reducing the risk profile of significant procurements and providing reassurance to senior management that the processes are robust or that areas of improvement are identified and addressed.
- 4.8 A list of the Level 0 risks is included as Appendix 2.

5 Internal Control

- 5.1 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 Risk and Assurance

teams assess the appropriateness and effectiveness of, and compliance with, internal controls.

- 5.2 Members of the CFC team attended a Chief Finance Officer Directorate professional development event to raise awareness of the threat of fraud committed by 'insiders' and included real TfL examples of where insiders had exploited control deficiencies to commit fraud. The attendees were also briefed on the threat to TfL employees through the use of keyloggers, devices commonly used by fraudsters to harvest personal data that is then used to commit fraud.

Finance and Procurement

- 5.3 Four internal audits were completed in this area. The processing of GDPR data by third parties - low value contracts audit was rated 'adequately controlled'. The Delegated Procurement Authority, SAP business expenses eForms and London Transport Museum financial controls audits were all rated as 'requires improvement'. We found that these three all had some controls that were operating effectively but there were different reasons for the absence of or ineffective controls which included resource constraints, data quality and lack of supporting documentation.

Safety

- 5.4 The QSSA team completed two audits looking at compliance with incident reporting processes for London Underground lift and escalators and London Trams. Both were concluded as 'requires improvement' as changes were required to strengthen either the process or compliance with existing arrangements. Recommendations have been made to address these points which the business areas accepted.

6 Governance

- 6.1 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.
- 6.2 One audit, Elizabeth line transition from capital programme to business as usual, was rated as 'requires improvement', Issues raised identified that plans had not been fully developed, followed by a lack of assurance against the plans and consensus over targets. Actions have been agreed that have addressed the issues identified.
- 6.3 The review by Internal Audit of Legacy technology - public switched telephone network (PSTN) services was rated as 'adequately controlled' and confirmed that the End-of-Life Network Services – PSTN/Integrated Services Digital Network project was well governed and effectively managed. There were only a few opportunities for improvement identified, which include implementing a single, central asset management system for the management of the

replacement technology, as well as all similar future telecommunications network services.

Assurance and Investment Programme

- 6.4 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.
- 6.5 The PA team has continued its programme of targeted assurance reviews including the annual programme submissions to the July and October 2023 meetings of the Programmes and Investment Committee, plus other targeted assurance and ongoing continuous assurance activity. From this work recommendations have been made and themes identified and collated and are reported to the Programmes and Investment Committee.
- 6.6 The availability of resources has continued to be monitored and explored during targeted reviews. While the situation continues to improve, analysis by TfL's Programme Management Office has confirmed that significant challenges remain. Some project management roles have been hard to recruit, and the impact of a lack of project management capacity and capability has been a theme in recent PA reviews. Additionally the availability of Procurement and Commercial staff has been identified as having an impact in a number of areas and PA has noted concerns relating to cost planning in a number of reviews this quarter.
- 6.7 During targeted assurance reviews for the Programmes and Investment Committee, a core line of inquiry has been to review the progress of transitioning to the new Programme structure for the Investment Programme approved in May 2023, with progress reported to the Programmes and Investment Committee. The reviews identified areas for improvement, and these have been included in recommendations.
- 6.8 IIPAG has 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. The Effectiveness of Pathway Gates Part 1 (Projects) review is underway, the Delivery of Renewals review is nearing completion, and terms of reference for the annual review of the effectiveness of first and second line assurance have been finalised. Respective areas of TfL continue to work addressing recommendations from earlier cross-cutting work.

7 Programme Changes

- 7.1 No internal audits were cancelled or deferred in Q2, however there have been delays to two audits due to the business requesting a pause to fieldwork. One new audit has been added to the plan which relates to the safety complaints process. These changes may impact Q3 and the plan may need to be re-profiled to reflect this although the impact should be minimal.
- 7.2 There were two QSSA audits cancelled in Q2:
- (a) Consultancy: TfL Control of Track Access – This was cancelled as a Safety, Health and Environment (SHE) deep dive is currently taking place on this subject which will make recommendations to improve control. We will discuss with SHE whether we should audit the new controls once they have been in place for a period of time; and
 - (b) Supplier Assurance: Compliance with London Underground Fire Standards – This was cancelled as the contract is being revised, introducing new requirements which will require assurance at a later date.
- 7.3 Two QSSA audits were deferred to next year's audit plan:
- (a) Rail for London infrastructure ISO 55000 Asset Management gap analysis assessment' – This has been deferred to 2024/25 after an initial external review in 2023; and
 - (b) Trams On-Track Plant and Machines – This has been deferred as the audit was intended to verify that actions from the 2022 audit have been effective. The audit actions have not yet been fully implemented.

8 Management Actions/Recommendations

- 8.1 A breakdown of overdue management actions and recommendations across Chief Officers and the Risk and Assurance teams is included as Appendix 3.
- 8.2 Appendix 4 provides an analysis on a rolling four quarter basis of management actions from Internal Audit and QSSA work and PA recommendations.

9 Customer Feedback

- 9.1 In Q2, the QSSA team received three customer feedback responses out of 12 sent out, with a 95.8 per cent satisfaction score. In the last 12 months, 29 responses were received out of 61 issued with an average 97.4 per cent satisfaction score. Internal Audit issued seven customer feedback forms, two were returned with an average score of 93.75 per cent.

10 Mayoral Directions

- 10.1 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.
- 10.2 The Mayor makes Mayoral Directions through Mayoral Decisions, which are published on the [Greater London Authority's \(GLA\) 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.
- 10.3 Since the last report to the Committee there has been one new Mayoral Direction to TfL.

MD3173 06/10/23	18-25 Care Leavers' Discounted Travel Concession Scheme TfL is directed to implement, provide and operate the 18-25 Care Leavers' Discounted Travel Concession Scheme for those meeting the eligibility criteria as soon as practicable before the end of February 2024. This will provide London care leavers aged 18-25 with half-price adult fares on the TfL bus and tram network. The travel concession will extend to pay-as-you-go tickets and Bus & Tram Pass season tickets. TfL will fund the development and ongoing costs of this new concession from its existing budgets, including utilising previous financial support for Mayoral ticketing priorities which have already been provided by the GLA.
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- 10.4 In the last report to the Committee, we reported the Mayoral Direction to TfL on the Withdrawal of Day Travelcards on the TfL Network (MD3142, 11/07/23). This Mayoral Direction is no longer applicable because, as provided for in that decision, agreement has been reached that is financially acceptable to TfL such that Day Travelcards can continue to be bought by customers as part of their train tickets to London.

List of appendices to this report:

- Appendix 1: Internal Audit reports issued in Q2 2023/24
- Appendix 2: Level 0 Enterprise Risks
- Appendix 3: Overdue Actions and Recommendations by Team
- Appendix 4: 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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