

Finance Committee

Date: 13 March 2024

Item: Risk and Assurance Report Quarter 3 2023/24

This paper will be considered in public

1 Summary

- 1.1 This report provides the Committee with an overview of the status of and changes to Enterprise Risk 5 (ER5) – Efficient and high performing supply chains and effective procurement, Enterprise Risk 7 (ER7) – Financial resilience and Enterprise Risk 9 (ER9) – Changes in customer demand.
- 1.2 This report also summarises the findings from the assurance activity associated with this risk, based on second line of defence audit work by the Quality, Safety and Security Assurance (QSSA) team and third line of defence work by the Internal Audit team within TfL’s Risk and Assurance Directorate.
- 1.3 As of Quarter 3 of 2023/24 (17 September to 9 December 2023) (Q3), we have revised reporting to the Board’s Committees and Panels to provide a more consistent and comprehensive report on TfL risks and assurance activity. The revised reports are aligned to the risks within the remit of each Committee and Panel and address all applicable Risk and Assurance work.
- 1.4 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 TfL Enterprise Risks

- 3.1 ER7 was presented at the 11 October 2023 Committee meeting. ER9 was discussed at the 7 December 2023 Executive Committee meeting and an update on ER9 is elsewhere on the agenda for this meeting. Further internal reviews of ER5, ER7 and ER9 are scheduled to take place before the end of this financial year.

4 Annual Audit Plans

- 4.1 The annual Internal Audit plan contains a series of third line audits that address all TfL Enterprise Risks. The annual QSSA audit plan contains a series of second line reviews that include ER5. Audits against other Enterprise Risks are now reported to the applicable Committee or Panel. Internal Audit and QSSA planning is underway for the 2024/2025 plans.

5 Work of Note for Quarter 3

Internal Audit

- 5.1 Appendix 1 provides details of the Internal Audit audits undertaken in Q3. Audit reports issued are rated as either 'well controlled', 'adequately controlled', 'requires improvement' or 'poorly controlled'. Individual findings within audit reports are rated as high, medium or low priority.
- 5.2 Internal Audit issued one report against ER5 in Q3, SAP Ariba Guided Buying which was rated as 'adequately controlled'. Three reports were issued against ER7: 'TfL Scorecard mid-year' and 'Government funding conditions' were also rated 'adequately controlled'. The audit of 'Cycle hire bad debt recovery' was rated 'poorly controlled'. Three audits against ER7 are in progress, 'Ultra Low Emission Zone (ULEZ) scrappage scheme', 'Journals' and 'National rail reimbursement scheme – pay as you go'.

Counter-Fraud and Corruption

- 5.3 The Counter-Fraud and Corruption team investigates all allegations of fraud and corruption involving TfL employees, non-permanent labour and third parties (including suppliers, customers and organised criminal groups). Summaries of significant new and ongoing cases relating to supply chain and procurement activities are set out in the paper on Part 2 of the agenda. These cases are part of the wider fraud reporting that is submitted to the Audit and Assurance Committee.

6 Cancelled and Deferred Work

- 6.1 All cancellations and deferrals are undertaken in consultation with the relevant business teams. One internal audit was cancelled in Q3 which was the ULEZ debt management. This was cancelled as there is a wider review of Road User Charging underway and once this is complete, we will consider if a further audit is required.

7 Performance and Trends

- 7.1 Performance data is provided at Appendix 2 on progress against the audit plan, audit ratings, rating trends by Enterprise Risk and business unit and progress against actions, with comparisons provided across the last two years.

Internal Audit

- 7.2 Nineteen ER5, ER7 and ER9 audits were completed in the last four quarters which is the same number as were delivered in the previous four. The number of 'requires improvement' and 'poorly controlled' remain the same at six and one respectively. The number of memos issued has reduced over the past four quarters, with a greater number of rated reports being issued. Six reports in the last four quarters were rated as 'adequately controlled'.
- 7.3 Work continues on the management of actions, particularly overdue actions with management teams and the Chief Officers to resolve. For ER5 and ER7 at the end of Q3 there were 66 open audit actions, 18 of which were overdue and six that were overdue by more than 100 days. There were no open audit actions for ER9. All actions that are overdue by more than 100 days are reported to the Audit and Assurance Committee.

List of appendices:

Appendix 1: Internal Audits Completed in Quarter 3 of 2023/24 against ER5, ER7 and ER9

Appendix 2: Internal Audit Summary Quarter 3 2023/24

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

List of Background Papers:

None

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Appendix 1 – Internal Audits Completed in Quarter 3 of 2023/24 against ER5, ER7 and ER9

ER5 Efficient and high performing supply chains and effective procurement

Chief Officer	Ref.	Audit Title	Objectives	Conclusion	Summary of Findings
Chief Finance Officer	23 008	SAP Ariba-Guided Buying	To provide assurance on the adequacy and effectiveness of controls governing SAP Ariba-Guided Buying.	Adequately Controlled	The considerable changes across Finance over the last few years have resulted in accountability and responsibility for SAP Ariba being spread across a number of teams. The management of the SAP Ariba (Guided Buying module) is adequately controlled. It is working as efficiently as expected and allows effective control and monitoring of transactions. We will do a further audit of this area in 12 months once the use of SAP Ariba Guided Buying is fully embedded.

ER7 Financial resilience

Chief Officer	Ref	Engagement Name	Objectives	Conclusion	Summary of Findings
Chief Finance Officer	23 011	Government Funding Conditions	To provide assurance that the conditions of the Government's funding agreement are being effectively managed and accurately reported.	Adequately Controlled	We found that most of the monitoring controls for the Long-term Funding Settlement requirements and assumptions were adequately designed and operating effectively. To date, the majority of requirements have been delivered in line with expected timescales. A number of initiatives are still to be fully delivered with a need for continued monitoring of funding assumptions.
Chief Operating Officer	23 014	Cycle Hire Bad Debt Recovery	To determine the adequacy and effectiveness of the cycle hire debt management key controls.	Poorly Controlled	Improvements need to be made to central oversight and accountability for cycle hire debt management and recovery processes. Actions have been agreed to address the findings raised in the report.
Chief Finance Officer	23 048	TfL Scorecard - Mid-year	To provide assurance on the adequacy of controls in place to gather data for the reporting of measures in the TfL Scorecard.	Adequately Controlled	There are adequate controls in place for the central coordination and local business unit procedures over the collection and processing of data for purposes of calculating and reporting on TfL Scorecard 2023/24 measures. Some weaknesses have been identified within the local business processes which need to be addressed.