

## Audit and Assurance Committee

**Date: 14 March 2024**

### **Item: Risk and Assurance Quarter 3 Report 2023/24**

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#### **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 3 of 2023/24 (17 September to 9 December 2023) (Q3) 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. It also seeks approval of the Audit Plan included at Appendix 1.
- 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 and approve the Audit Plan set out in Appendix 1.**

## **3 Director Update**

- 3.1 This is the third 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 10 audits in Q3 and detail is included at Appendix 2. Five audits were found to be 'adequately controlled' and one memo was issued. One report, Cycle Hire Bad Debt Recovery, was 'poorly controlled'.
- 3.3 Three reports issued were still at draft report stage with the overall rating to be agreed, two related to the impact of extreme weather and one to documentation and records management for procurement and contracts.

- 3.4 The pace of delivery has picked up with a number of audits in reporting stage at the end of Q3 in addition to those issued. There have been some changes to the internal audit plan in terms of delivery dates due to specific requests from the business for new pieces of work. We are still on track to deliver our end of year target and delivery is being closely monitored.
- 3.5 Internal Audit have completed 37 audits in the last 12 months compared with 40 for the previous 12 months. The distribution of audits by Enterprise Risk and Chief Officer is generally consistent. We have issued two 'poorly controlled' audits over the last 12 months which is the same as the preceding 12 months. Audits rated as 'requires improvement' are consistent at 43 per cent, with those 'adequately controlled' improving from 18 per cent to 30 per cent. The number of memos issued has reduced from 35 per cent to 22 per cent as a result of issuing more reports with an audit rating and tracked management actions.
- 3.6 The Quality, Safety and Security Assurance (QSSA) team delivered 12 second line audits in Q3 of which one was rated as 'poorly controlled' and four were rated as 'requires improvement'. All have agreed actions plans in place:
- (a) London Underground (LU) Track Work Bank Management ('poorly controlled');
  - (b) LU Track Supervisory and Management Inspections ('requires improvement');
  - (c) Payment Card Industry Data Security Standard (PCI DSS) Compliance: Taxi and Private Hire ('requires improvement');
  - (d) PCI DSS Compliance: Victoria Coach Station ('requires improvement'); and
  - (e) Project Management of Redundant Assets ('requires improvement').
- 3.7 The delivery of QSSA audits in the last 12 months has been relatively consistent compared with the 12 months prior to that: 90 and 94 audits respectively. A notable difference when comparing the last two years by Enterprise Risk is nine fewer audits were completed against ER1 (Inability to deliver safety objectives and obligations) and nine more audits were completed against ER6 (Deterioration of operational performance). Distribution of audits by Chief Officer is generally consistent across the last two years.
- 3.8 Comparing the last two years there has been a decrease in the number of QSSA audits concluded as 'poorly controlled' from six to two. However, there has been an increase in the number of 'requires improvement' audits. Recent PCI DSS audits have continued the trend of an increased number of 'requires improvement' conclusions. 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 e-learning site and reminders are provided by email to ensure colleagues remain up to date with requirements. We therefore expect the number of PCI DSS audits classified as 'requires improvement' to decrease as these actions take effect.

3.9 During Q3, the Counter-fraud and Corruption (CFC) team received 252 referrals, all of which were assessed and disseminated within the 10 working days target. As a result of the referrals, 11 new full fraud cases are under investigation and a further 25 have been made miscellaneous cases that require the team to carry out further enquiries to assess whether any should become a full case. Seven full cases were closed during Q3.

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

Chief Officer Area	Start Q3	New Q3	Closed Q3	Under investigation by CFC	With Line Management	With Law Enforcement
<b>Operations</b>	19	5	2	3	10	9
<b>Capital</b>	0	0	0	0	0	0
<b>Customer and Strategy</b>	13	4	3	7	1	6
<b>People</b>	1	0	0	0	0	1
<b>General Counsel</b>	0	0	0	0	0	0
<b>Finance</b>	1	2	2	1	0	0
<b>Total</b>	<b>34</b>	<b>11</b>	<b>7</b>	<b>11</b>	<b>11</b>	<b>16</b>

3.11 The CFC team continues to refer offenders for prosecution. A former employee of a supplier was sentenced for an offence of fraud by abuse of position for processing fraudulent refunds through the online Oyster refunds system whilst working in their role as a Customer Service agent. They were sentenced to six months imprisonment, suspended for two years, to undertake 300 hours of unpaid work in the next 12 months, and to pay compensation of £8,831. This compensation, when received, will be paid to the supplier because of TfL receiving full compensation from the supplier, under contractual terms.

3.12 During Q3 we had two new starters, one auditor in QSSA and one internal secondment to fulfil the new Fraud Researcher/Analyst role in the CFC team.

## 4 Internal Audit Plan

4.1 The internal audit plan has been developed to show the work that we intend to carry out in the first six months of 2024/25. The Committee is asked to approve the 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 second line assurance activity will be carried out by the other assurance teams, both within 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 Risk and Assurance 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 Q3:
  - (a) Changes in customer demand (ER9); and
  - (b) Governance and control suitability (ER10).
- 5.3 An update on ER10 is elsewhere on the agenda for this meeting.
- 5.4 A further workshop is planned in Quarter 4 of 2023/24 to complete the risk assessment for ER6 (Deterioration of operational performance), which was presented to the Customer Service and Operational Performance Panel meeting at its meeting on 5 March 2024.
- 5.5 The development of Level 1 risks is progressing well. Safety and Green risks have been presented at their respective Executive Committee sub-groups and there has been good discussion around how these risks will be presented at future meetings. Development of the Colleague, Investment Delivery, Governance and Security Level 1 risks is also progressing and will be completed in Quarter 1 of 2024/25.
- 5.6 The Level 1 risk mapping exercise has commenced, and all Level 1 risks will be mapped to Level 0 risks. During this exercise, duplicates will be identified and opportunities explored to combine/merge risks as appropriate.
- 5.7 Following the 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 undertaken three separate reviews at key points in the tender process with all three reviews indicating that planning and management of the tender was to a high standard.
- 5.8 A review of documentation and processes associated with a new framework in the LU track infrastructure area is continuing. Reviews at various points in the documentation production process have identified a number of key areas that have required improvement, which the team responsible are in the process of addressing and PA will monitor through to conclusion. 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.
- 5.9 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 Risk and Assurance teams assess the appropriateness and effectiveness of, and compliance with, internal controls.
- 6.2 We confirmed that adequate and effective controls are in place to cover the programme management of the Our TfL Programme (OTP). The OTP team is aware of the risks associated with the delivery of the programme and is taking action to resolve them.
- 6.3 Members of the CFC team delivered a presentation to the Taxi and Private Hire Assessment team (around 100 attendees) about the impact of insider fraud. The presentation was designed to raise awareness of the sophisticated methods used by insiders to gather personal data and information from TfL, for the purposes of misusing that data to commit fraud.

### **Finance and Procurement**

- 6.4 Our review of SAP Ariba Guided Buying found that the management of the Guided Buying module is working as efficiently as expected and allows for effective control and monitoring of transactions. We also found that most of the monitoring controls for the long-term funding settlement requirements and assumptions were adequately designed and operating effectively.
- 6.5 We undertook a mid-year review of the TfL Scorecard because there have been changes to some of the metrics since last year and we wanted to identify any potential issues in good time to take remedial action. We found that there were adequate controls in place for the central coordination and local business unit procedures over the collection and processing of data for purpose of calculating and reporting TfL Scorecard measures. Findings relating to issues in local processes are being addressed.

### **Safety**

- 6.6 In Q3 no QSSA audits against ER1 were concluded as 'requires improvement' or 'poorly controlled'. There has been a slight reduction in the number of ER1 audits compared with the previous year (from 55 to 46), largely while the Safety Health and Environment (SHE) Management System was being revised.

## **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.

- 7.2 We continue to find weaknesses in records management. We found that records management is not clearly defined across the Procurement and Commercial team and there is no clear view of the procurement and contract documentation held across systems and drives. We also found that SAP Ariba is not being consistently used as the single repository for all procurement and contract records.
- 7.3 Improvements in the governance of myJourney (TfL's platform for career conversations, development, feedback, and performance and readiness reviews) were identified which included the streamlining of the change process and the need for a formal process for continuous improvement.

### **Assurance and Investment Programme**

- 7.4 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 programme meetings as well as the Executive Committee Investment sub-group, and at the Programmes and Investment Committee.
- 7.5 The PA team has continued its programme of targeted assurance reviews including the annual programme submission to 6 December 2023 meeting 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.
- 7.6 During targeted assurance reviews for the Programmes and Investment Committee, a core line of inquiry continues to be the review of progress in fully transitioning to the new Programme structure for the Investment Programme approved in May 2023. Recommendations have been made in a number of Programme reviews related to improvements to transition arrangements and have been discussed at senior governance meetings. Updates will be provided to the Programmes and Investment Committee.
- 7.7 Assurance reviews indicate that, while risk and opportunity management is generally undertaken to an acceptable level, assumptions management by projects and programmes appears to be an area of weakness. Projects rely heavily on a series of assumptions that underpin delivery strategies, schedule and cost, and the delivery of benefits. There have been several situations in recent reviews where projects are relying on a series of assumptions that were inaccurate. A recent example includes assumptions that were made around the timing of an infrastructure renewal by another business area which was an enabler for a key enhancement project. This has resulted in reactive action needing to be undertaken to mitigate the impacts. The PA team is placing an enhanced focus on assumptions management particularly the validating and tracking assumptions and the link to robust schedule and forecast.

7.8 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 Delivery of Renewals Part 1 review was completed with findings reported to the Programmes and Investment Committee of 6 December 2023. The Effectiveness of Pathway Gates Part 1 (covering Projects) review is underway and the annual review of the effectiveness of first and second line assurance has commenced. A follow up on open actions from a number of reviews in the Procurement and Commercial area conducted between January 2022 and February 2023 has been undertaken. This indicates that 11 of IIPAG's 19 recommendations have been closed out. Respective areas of TfL continue to work to address recommendations from these and other completed cross-cutting work.

## **8 Programme Changes**

8.1 Two internal audits were cancelled in Q3 at the request of the business. There is a wider review of debt management across TfL and it was agreed to cancel the Ultra Low Emission Zone debt management process audit until the conclusions of the wider review are known. The London Transport Museum consultancy review was cancelled at their request as their own work under the 'get stuff done' initiative identified that this was not the right time to do the review.

8.2 All cancellations and deferrals are undertaken in consultation with the relevant business teams. QSSA cancelled two audits in Q3:

(a) Supplier Audit: Mental Health Services cancelled as there are monthly performance reviews to assure the provision against the contract; and

(b) Surface Transport Fire Risk Assessments – This was previously audited in 2021/22 and it was agreed that a re-visit was not required so soon.

8.3 One QSSA audit was deferred to next year's audit plan:

(a) Planning for SHE Improvements – This has been deferred to prevent duplication with other TfL safety improvement programmes.

## **9 Management Actions/Recommendations**

9.1 A breakdown of overdue management actions and recommendations across Chief Officers and the 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 Q3, 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 four customer feedback forms, two were returned with an average score of 87.5 per cent.

## 11 Mayoral Directions

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

<a href="#">MD3221</a>	<b>March 2024 fare change</b>
18/01/24	The Mayor issued a direction to TfL in relation to implementing the March 2024 fare change. The changes included freezing TfL-regulated fares set by the Mayor, which would be funded by increasing TfL's retained business rates income.

### List of appendices to this report:

- Appendix 1: Internal Audit plan 2024/25
- Appendix 2: Internal Audit reports issued in Q3 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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