Audit and Assurance Committee

Date: 5 June 2024

Item: Risk and Assurance Quarter 4 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 4 of 2023/24 (10 December 2023 to 31 March 2024) (Q4) 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 the changes to Risk Appetite and Tolerance as set out on Part 2 of the agenda.**

3   Director Update

3.1   This is the fourth quarterly report for 2023/24 setting out the work undertaken by the teams within the Risk and Assurance Directorate.

3.2   Internal Audit delivered 20 audit reports in Q4 delivering 90 per cent of the annual plan exceeding the 85 per cent target. Details of these audits are included at Appendix 1 and two audits were rated as 'well controlled', five were 'adequately controlled, nine 'requires improvement', two were 'poorly controlled' and two memos were issued.

3.3   The Quality, Safety and Security Assurance (QSSA) team delivered 34 second line audits in Q4, delivering 88 per cent of the annual plan exceeding the 85 per cent target. Two audits we concluded as 'poorly controlled' and further details are set out in paragraph 5.7 below.

3.4 During Q4, the Counter-fraud and Corruption (CFC) team received 284 referrals, all of which were assessed and disseminated within the 10 working days target. As a result, 10 new fraud cases are under investigation. A further 24 have been made miscellaneous cases that require the team to carry out further enquiries to assess whether any should become a full case. Five cases were closed during Q4.

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

Chief Officer Area	Start Q4	New Q4	Closed Q4	Under investigation by CFC	With Line Manage-ment	With Law Enforce-ment
Operations	22	3	2	4	9	10
Capital	0	1	0	1	0	0
Customer and Strategy	14	5	3	9	3	4
People	1	1	0	0	1	1
General Counsel	0	0	0	0	0	0
Finance	1	0	0	1	0	0
Total	38	10	5	15	13	15

3.6 The CFC team continues to refer offenders for prosecution. A member of the public, who was advertising the sale of concessionary Oyster cards on social media pleaded guilty to conspiracy to defraud TfL. He was sentenced to three years and two months' imprisonment, of which two years were suspended. He was also ordered to pay £60,720 compensation to TfL.

3.7 An employee of a direct supplier to TfL, processed a large number of fraudulent refunds on TfL systems, which were paid into his personal bank accounts. The CFC team reported the case to the British Transport Police, who arrested and charged the employee with fraud by abuse of position. The former employee (who was dismissed) pleaded guilty and was sentenced to seven months imprisonment (suspended for 12 months), to undertake 100 hours of unpaid work and to pay £6,969.13 compensation to TfL.

3.8 During Q4 we had one new auditor join the QSSA team and two leavers, one in QSSA and one in Internal Audit. We also currently have recruitment campaigns in the Enterprise Risk team and in QSSA, we are seeing good interest in the roles.

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 Risk and Assurance Directorate supports the business with Enterprise Risk management at Enterprise (Level 0), Strategic (Level 1) and Tactical (Level 2).

4.2 TfL's Risk Management Policy has been reviewed, updated and published on the Management System. The Enterprise Risk Assessment Matrix for scoring risks at all levels has been updated to include sub-categories such as Carbon, Colleague and distinct Finance impact numbers for Levels 0, 1 and 2 risks. Updates to the Risk Management Procedure are being finalised and will be published on the TfL Management System imminently.

4.3 A risk Dashboard has been developed to report on the risk details individually for each Enterprise Risk. These Dashboards are being used to facilitate discussions which the Chief Officers who own each risk. The Dashboard shows key information relating to the risk including, the Risk Appetite and Level, Risk Appetite Statement, Current and Target scores as well as linked Level 1 risks.

4.4 A follow up workshop to complete the development of ER06 (Deterioration of operational performance) was completed and this risk was presented at the 5 March Customer Service and Operational Performance Panel. The remaining nine Enterprise Risks were reviewed, individual Dashboards prepared and discussed with the relevant Chief Officer.

4.5 Further work has been undertaken to develop and seek agreement to TfL's new Risk Appetite and Tolerance approach. Risk Appetite Statements have been developed for the agreed risk categories and sub-categories based on the agreed risk appetite levels. TfL's risk appetite approach has been reviewed and agreed by the Executive Committee and is supported by the Chair. The next step is implementation, monitoring and reporting once the approach has been reviews by this Committee.

4.6 Level 1 risk mapping has been completed and action taken to combine risks where duplicates have been identified. Further development of these risks is progressing well with updates going to the relevant Executive Committee sub-groups.

4.7 In line with the Independent Investment Programme Advisory Group (IIPAG) recommendation to ensure that robust second line assurance of high value procurement actions is in place, the Project Assurance (PA) team is continuing to undertake detailed targeted procurement reviews.

4.8 A review of documentation and processes associated with a new framework in the London Underground (LU) 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 continue to monitor through to conclusion.

4.9　In addition, PA is considering the adequacy of the procurement approach and documentation for a number of significant contracts in the Environment Programme. The first contract review established that the strategic procurement approach was robust and had been informed by an effective early market engagement exercise. There was an increased level of risk due to limited availability of subject matter experts to prepare key documents and a schedule that needed strengthening, and this is being addressed by the team responsible.

4.10　A list of the Level 0 risks is included at 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　We found that the control framework for processing National Rail reimbursement scheme claims and headcount controls was well designed and operating effectively with only minor issues identified.

5.3　Areas where improvement in internal control were needed included the audit of the system used to raise sales invoices to TfL's retail agents for the sale of Oyster cards. The audit of cost of change found that controls for identifying and recording financial and non-financial benefits and calculating costs needed improvement.

5.4　Cost estimates completed by the Cost Estimation Team (CET) were found to have been completed consistently, were tracked internally and stakeholder feedback was good. However, project teams were not following the estimate request form process resulting in estimates often being in draft, waiting business approval and sign off. The role that CET play in the oversight of cost estimation policy across TfL still needs to be agreed and responsibilities formalised.

Finance and Procurement

5.5　The audits of treasury management and journals found that controls were adequately designed and working effectively. We found that key controls and process/control owners have been identified and there is clear segregation of duties when processing journals.

Safety

5.6　The audit of the safety complaints process, which was rated as 'poorly controlled', covered the processes in place from receipt, recording, investigation, action taken, reporting of the results and the assurance of safety complaints across TfL. Inconsistencies were found in the way processes were carried out and there was limited evidence to support compliance with the process. Actions to address all areas have been agreed and are being actioned as a priority.

5.7 In Q4 two QSSA audits against ER01 (Inability to deliver safety objectives and obligations) were concluded as 'poorly controlled'. DLR Fire Asset Management found weaknesses in the change control process and lack of clarity regarding roles and responsibilities. There's a four weekly joint Safety Strategy meeting between DLR and Keolis Amey Docklands senior management teams where these actions are discussed and tracked. Driving at Work found that the management system documents lacked clarity and a number of critical elements were not complied with, this included risk assessment, training and assurance. Five were rated as 'requires improvement' – LU rolling stock non-destructive testing, LU pumps competence management, LU emergency lighting, First aid provision and Payment Card Industry Data Security Standard: CPAY and London cycle hire Scheme 'backend'. All have agreed actions plans in place.

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 We found examples of good governance in our reviews of the effectiveness of the TfL pension fund trustee board, the legacy technology Public Services Telephone Network/Integrated Services Digital Network projects and cost of change. The audits of the engineering resource model found that while the model was working effectively enhanced governance arrangements were needed. The gifts and hospitality policy and procedure is well established but there were some groups that were unaware they should regularly make declarations and this has now been rectified.

6.3 This quarter a number of internal audits on TfL's plans in the event of extreme weather events were completed. Events of extreme weather are predicted to occur with increased frequency and impact our people, services and assets. We found that current weather plans for heavy rain and flooding, extreme heat and wind have not been reviewed and updated to accommodate new information on the hazards and risks from such extreme events.

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 programme meetings as well as the Executive Committee Investment sub-group, and at the Programmes and Investment Committee.

6.5 PA has continued a programme of targeted assurance reviews including the annual programme submission to the February 2024 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; these are reported to the Programmes and Investment Committee.

6.6   Weaknesses in the accuracy and robustness of cost plans have become a notable trend in PA reviews. This impacts the ability to manage costs and value, makes budgeting difficult and creates uncertainty in estimated final costs. Areas for improvement have related mainly to sufficiency of allowances for underlying cost drivers, appropriately developed risk assessments, the validity of estimates and schedule alignment. Evidence has been seen of efforts to improve cost planning and forecasting capabilities. One example is the development of a sophisticated cost plan template which will improve consistency and enable more advanced cost interrogation. This has been trialled successfully within selected capital projects. The progress to implement this and other improvement initiatives and their effectiveness will be monitored by PA and reported to the Programmes and Investment Committee.

6.7   Providing assurance of business cases and supporting their effective drafting, particularly those being issued to Department for Transport (DfT) as part of funding applications has continued to be a significant workstream for PA. The business case for the refurbishment of Gallows Corner Flyover has recently been accepted by the DfT. Two further business cases for similar highway scheme refurbishments will be submitted to the DfT in the coming months with learning from earlier submissions feeding into the process.

6.8   IIPAG has worked with PA on programme reviews and reviews of higher value projects and they have continued to progress their programme of cross-cutting reviews this quarter. The annual review of the effectiveness of first and second line of assurance was completed, and findings will be reported to the next meeting of the Committee. In addition, a review considering the effectiveness of Pathway project gates was completed and findings will be reported to the Programmes and Investment Committee.

6.9   An IIPAG review of the prioritisation and planning of capital renewals has commenced. A review will start shortly investigating how TfL investment decisions are taking into consideration the need to reduce whole life carbon emissions. Internal Audit will be reviewing carbon management in operations in conjunction with the IIPAG review.

7   Programme Changes

7.1   There were three internal audits deferred in Q4. Two related to grant certification work at the London Transport Museum where expenditure is yet to be incurred and these will be rescheduled for 2024/25. Readiness for the new procurement Act has been moved to Quarter 1 of the 2024/25 audit plan.

7.2   QSSA cancelled two audits in Q4, LU Inspection of Building Drainage Assets was cancelled as it was established during planning that Engineering and Asset Performance teams were aware of issues in this area and had a plan to address them. Safety, Health and Environment (SHE) Governance and Change Assurance was also cancelled as it has been merged with an audit planned for 2024/25 that has a broader scope.

7.3   Four QSSA audits were deferred to next year's audit plan. LU Off-Track Drainage Management has been deferred to allow time for the audit actions to be completed prior to follow up. Places for London Asbestos Management has been rescheduled for six months' time in agreement with the SHE and the Hazardous Materials teams due to resourcing changes in the team. Emergency preparedness has been deferred to Quarter 3 2024/25 as revised management system content is due to be issued in May 2024. LU Signals Incident Response has been deferred to Quarter 1 2024/25 at the request of the Engineering Assurance Manager. All cancellations and deferrals are undertaken in consultation with the relevant business teams.

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 at Appendix 3. We continue to work with the management teams and the relevant Chief Officers to resolve these.

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 Q4, the QSSA team received 17 customer feedback responses out of 38 sent out (45 per cent response rate), with a 100 per cent satisfaction score. Internal Audit issued four customer feedback forms, two were returned with an average score of 87.5 per cent.

10   Mayoral Directions

10.1   There have been no mayoral directions since the last Committee meeting.

List of appendices to this report:

Appendix 1:   Internal Audit reports issued in Q4 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

Contact Officer: Lorraine Humphrey, Director of Risk and Assurance
Email: lorraine.humphrey@tube.tfl.gov.uk