

Item: Risk and Assurance Annual Report 2018/19 – Updated

At its meeting on 10 June 2019, the Audit and Assurance Committee requested an amendment to the Internal Audit Opinion within the Risk and Assurance Annual Report 2018/19 to provide more detail on Crossrail. The updated opinion is below.

1 Summary

- 1.1 This is the first annual report of Risk and Assurance, which was formed in February 2018, bringing together Internal Audit, Enterprise Risk Management, Project Assurance and Fraud into an integrated Directorate. The report provides an overview of the work carried out by the Directorate, and other activities during the year.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to provide an annual Internal Audit opinion based on objective assessment of the framework of governance, risk management and control established by TfL management. The Internal Audit opinion is incorporated into this annual report in section 2 below.

2 Internal Audit Opinion

- 2.1 In our opinion, the overall framework of TfL's governance, risk management and internal control in the year ended 31 March 2019 is generally adequate for TfL's business needs and operated in an effective manner, except for the following two matters.
 - (a) The Internal Audit opinion for 2017/18 noted that TfL was in the process of refreshing its approach to risk management, including a thorough review of its strategic risks, and that consequently the Enterprise Risk Management (ERM) process was not yet fully effective. TfL's ERM processes have developed significantly over the course of 2018/19 with a well-defined set of strategic risks in place, regular risk reviews and updates, and reporting to Panels and Committees. Nevertheless, the level of risk maturity varies between different areas of TfL, and further work is still required before risk management is fully effective.
 - (b) We have concluded a number of audits of governance and financial controls over procurement and contract management as 'Poorly Controlled', indicating significant weaknesses in controls over arrangements for procuring supplies and services. There are a number of areas where commercial processes have not been adhered to which have affected TfL's ability to secure value for money; such as single sourcing, use of frameworks, segregation of duties, conflicts of interest and the application of delegated authorities. TfL is taking forward a programme of activity to

strengthen internal controls and reduce the likelihood of reoccurrence in the future. Internal Audit has worked with management to agree appropriate corrective actions and a timescale for improvement, and is working with management to define the appropriate approach to further advisory and/or effectiveness engagements during the financial year 2019/20.

- (c) The Crossrail demobilisation programme resulted in the premature dismantling of a number of key controls, including the Audit Committee. Following the delay, KPMG and the National Audit Office (NAO) undertook a number of independent reviews, into Crossrail's governance systems, which identified weaknesses and areas for improvement. Crossrail has accepted the recommendations of these reviews and are rebuilding and improving their assurance and governance framework; including refreshing its approach to risk management, and development of a new set of strategic risks. Enterprise risk management is not yet fully effective, and is expected to develop throughout 2019/20. Since the retiming of the Crossrail project, Internal Audit had engaged with Crossrail in relation to their revised governance structure, utilising the three lines of assurance model, and has developed a re-focused audit plan for delivery during 2019/20.

Basis of the Audit Opinion

- 2.2 We are satisfied sufficient assurance work has been completed to allow us to form a reasonable conclusion on the adequacy and effectiveness of TfL's governance, risk management and control environment.
- 2.3 In giving this opinion, you should note that assurance can never be absolute, and therefore, only reasonable assurance is provided that there are no major weaknesses in the system of internal control processes reviewed. The Internal Audit opinion does not provide any guarantee against material errors, loss or fraud.
- 2.4 The Audit Opinion is based on the audits, including consulting and advisory assignments, carried out by Internal Audit during 2018/19, and takes account of other sources of assurance including:
 - (a) Second line reviews of capital programme and projects carried out by the Project Assurance team and third line assurance delivered by the Independent Investment Programme Advisory Group (IIPAG);
 - (b) Audits of HSE and Asset Management, and Payment Card Industry Data Security Standard) PCI DSS reviews carried out by the Integrated Assurance team;
 - (c) Results of any follow up exercises undertaken in respect of previous years' internal audit work;
 - (d) Control issues identified by the Fraud team in the course of their investigations; and
 - (e) Crossrail's Independent Governance and Financial and Commercial reviews by KPMG, and the NAO audit report.

- 2.5 There have been no matters arising from any of the work completed that need to be brought to the attention of the Audit and Assurance Committee
- 2.6 There have been no restrictions imposed on the scope of the work completed by the Internal Audit function.

3 Work Delivered

- 3.1 Risk and Assurance has reported quarterly to the Audit and Assurance Committee on the work delivered by its various teams. This section summarises the work done over the course of the year.

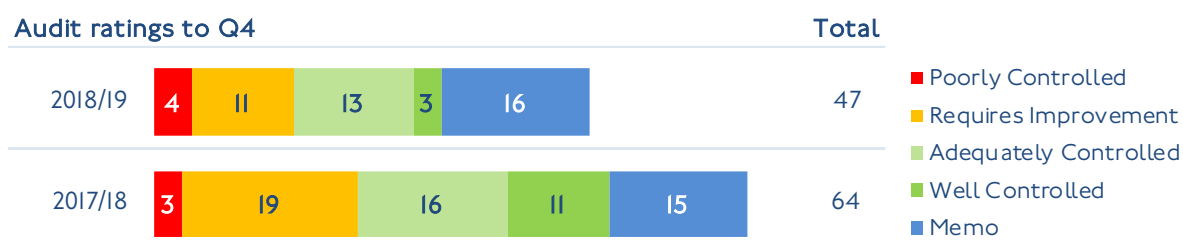
Enterprise Risk Management

- 3.2 The Enterprise Risk Management (ERM) team has made significant progress during the year in designing and implementing an effective ERM process into TfL. Key elements of this include:
 - (a) a new Enterprise Risk Management Framework (ERMF) bespoke to TfL following benchmarking of ERMFs;
 - (b) a consistent Enterprise Risk Assessment Matrix (ERAM), which is now embedded in all risk and assurance activities across TfL;
 - (c) updated Enterprise Risk Policy and Procedure incorporating TfL's approach to risk tolerance and appetite; and
 - (d) a new Strategic Risk template that captures all the pertinent information to help the business better understand and manage its risks.
- 3.3 TfL has defined a set of (currently) 18 pan-TfL strategic (Level 0) risks each of which is 'owned' by a member of the TfL Executive Committee. The ERM team facilitate quarterly reviews of the strategic risks. In addition, the TfL Executive Committee reviews the strategic risks each period including a detailed review of two risks on a rolling cycle.
- 3.4 Oversight of each risk has been allocated to one of TfL's Committees and Panels who review one or more of their allocated strategic risks at each meeting, and it is anticipated that all of the risks will have been reviewed in this way at least once by autumn 2019.
- 3.5 The ERM team also facilitate workshops to identify, assess and support the management of risks at Level 1 (business area strategic risks) and Level 2 (business area tactical risks). Level 1 risk in LU and Surface Transport are now well defined and reviewed regularly at the respective executive committees. Work is ongoing to finalise Level 1 risks for Engineering and Major Projects, and to identify and assess them for Professional Services areas. There have also been significant improvements in the maturity of Level 2 risk management across TfL.
- 3.6 Over the next year, the focus of the ERM team will be to develop a universal approach to opportunity management to improve the suite of risk reports at levels 0, 1, and 2 to develop and roll out TfL's risk visualisation approach, which supports better decision making regarding prioritisation and management of

risks, and to develop a suite of e-learning materials to improve risk culture and competence throughout the organisation.

Audit and Assurance Activity

- 3.7 The Audit and Assurance Committee approved the Integrated Audit Plan for 2018/19 on 6 March 2018. The plan clearly distinguishes between the third line (Internal Audit) and second line assurance, with the latter only noted in summarised form.
- 3.8 The plan generally changes significantly over the course of the year as projects and procurements are revised or re-programmed and new or changing risks take priority. For this reason, we use a “rolling” plan, which means we confirm our audit schedule on a quarterly basis. We have reported regularly on cancellations, postponements and additions to the plan throughout the year.
- 3.9 A number of audits in the 2018/19 Audit Plan were still in progress at 31 March 2019. The number of Internal Audit reports issued during the year is set out in the table below, and includes 10 audits carried forward from the 2017/18 audit plan. The reduction in the total numbers of reports issued compared to 2017/18 largely reflects the significant number of Internal Audit headcount vacancies during the year (see section 6 below) following the transformation activities in 2017/18.



- 3.10 The chart below summarises the key outcomes arising from work completed at the second and third line of assurance by our various Risk and Assurance teams, by reference to the related Strategic Risk. More detailed information in relation to the internal audits completed against each of the strategic risks can be found in Appendix 1

	←2nd line assurance			Total	←3rd line assurance			Total
SRI Achieving safety outcomes	4	5	2	11	2			2
SR2 Talent attraction and retention					1			1
SR3 Governance and control suitability					2	2	1	6
SR4 Major cyber security incident				1	1			2
SR6 Loss of external stakeholder trust					1			1
SR7 Financial sustainability	5			5	3	2	2	15
SR8 Inability to deliver predicted revenue growth					2	1	1	4
SRI2 Delivery of key investment programmes		11	58	69				
SRI3 Operational reliability		8	10	20	1	2		4
SRI6 Opening of the Elizabeth Line	5	2	1	8	6	3	3	12

- 3.11 The following paragraphs highlight some of the key findings from the audit and assurance work carried out in 2018/19.

Strategic Risk 7 (SR7) – Financial Sustainability

- (a) Our work in relation to the Financial Sustainability strategic risk; included several that covered commercial/ procurement processes, three of which we concluded as 'poorly controlled'. These highlighted a number of areas where commercial processes have not been adhered to which have affected TfL's ability to secure value for money; such as single sourcing, use of frameworks, segregation of duties, conflicts of interest and the application of delegated authorities.
- (b) Corrective actions have been agreed to address the issues raised in the short term, and management is putting in place an improved governance structure, and new processes to strengthen financial controls across the organisation. Additionally, Internal Audit has engaged with the operating business to provide advice on short and long-term corrective action priorities, and considerations for future internal control design. We will assess the operating effectiveness of any new controls in future audits.

Strategic Risk 12 (SR12) – Delivery of Key Investment Programmes

- (a) The primary source of assurance over delivery of the TfL Investment Programme is through the work of the Project Assurance team, which carries out Assurance Reviews (ARs) of projects, programmes and sub-programmes across the Investment Programme Portfolio. During the year, the team issued 96 assurance reports, and a summary of the findings from these reports have been included in the quarterly Risk and Assurance reports to the Audit and Assurance Committee. Notable AR's relate to two of DLR's Rolling stock programmes.
- (b) DLR Replacement Rolling Stock (RSR) stood out as an exemplary programme that will deliver 43 new trains to the network, replacing the legacy B92 fleet, and providing additional capacity. There is also substantial office and housing development underway around the network. Consequently, the increased number of trains mean an expansion of the existing Beckton Depot for additional stabling space, a new Maintenance Shed for the new walkthrough trains, updating the signalling system and improving certain parts of the traction power equipment, stations and telecoms systems.
- (c) The RSR Sub-programme was an example of good project management and stakeholder management. In respect of the technical and engineering aspects of the project, the review found that the required processes are in place to manage all aspects of this complex project. Due to challenges on a number of other recent rolling stock procurements by unsuccessful bidders an independent assessment was carried out to assess challenge risk on the procurement process. This was seen by Programme Assurance and IIPAG as a very good process to undertake and was commended. This is now being undertaken on Silvertown Tunnel.
- (d) The review judged that the RSR Sub-programme is very well managed with a knowledgeable and enthusiastic team in place. All documentation examined in the review was of a high quality; risks were regularly reviewed,

and reflected in accurate and timely period reports. Lessons learned from other projects had been comprehensively documented, and included in the procurement and evaluation approach. Project Assurance recognised the RSR sub-programme as a model of good practice, and recommended that it be used as an exemplar for other TfL projects.

Strategic Risk 1 (SR1) – Achieving Safety Outcomes and SR13 – Operational Reliability

- (a) The Integrated Assurance team delivers the majority of the assurance over these two risks. Much of the work focused on the implementation of the HSE management system and asset engineering quality management.
- (b) Two 'Poorly Controlled' and three 'Requires Improvement' reports were concerned with the management of station assets, including: station staircase pressurisation testing; lift and escalator statutory inspections; premises inspections; management of water systems to control legionella; and testing of station emergency lighting. Taken together, these audits indicate that the arrangements in place prior to the recent transformation, for planning, delivery and assurance of performance were not always effective in ensuring compliance with requirements. The new management team have recognised the need for change in this area and are working constructively to address audit findings.
- (c) Additionally, the Integrated Assurance team completed the annual HSE audit for DLR, which in prior years, had been delivered by an external provider. This saved approximately £60,000 compared with the cost in previous years

Strategic Risk 3 (SR3) – Governance and Control Suitability

- (a) One of the audits against this risk was concluded as Poorly Controlled. This was in relation to compliance with data privacy and protection requirements by LU surveillance cameras. Management has taken forward a programme of actions to strengthen the controls.

Strategic Risk 16 (SR16) – Opening of the Elizabeth Line

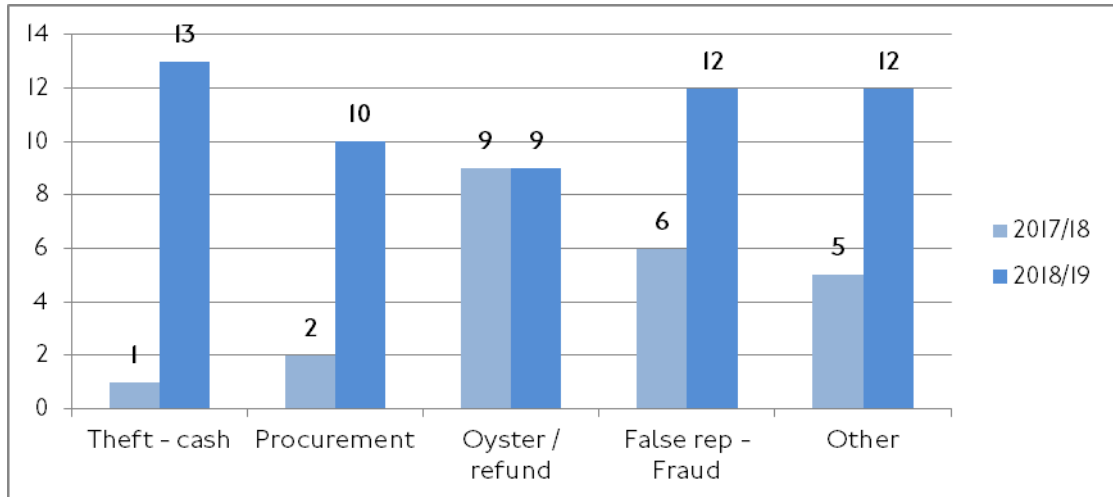
- (a) A number of the audits completed during the year related to this strategic risk. These were mainly delivered prior to the announcement of the delay to the opening of Crossrail, and were mainly focused on specific aspects of preparations for operational handover; reflecting the project delivery timelines at that time. Since the retiming of the Crossrail project, we either cancelled or postponed the remaining audits in this area. Internal Audit has engaged with Crossrail in relation to their revised governance structure utilising the three lines of assurance model and developing a re-focused audit plan for 2019/20.

Counter Fraud

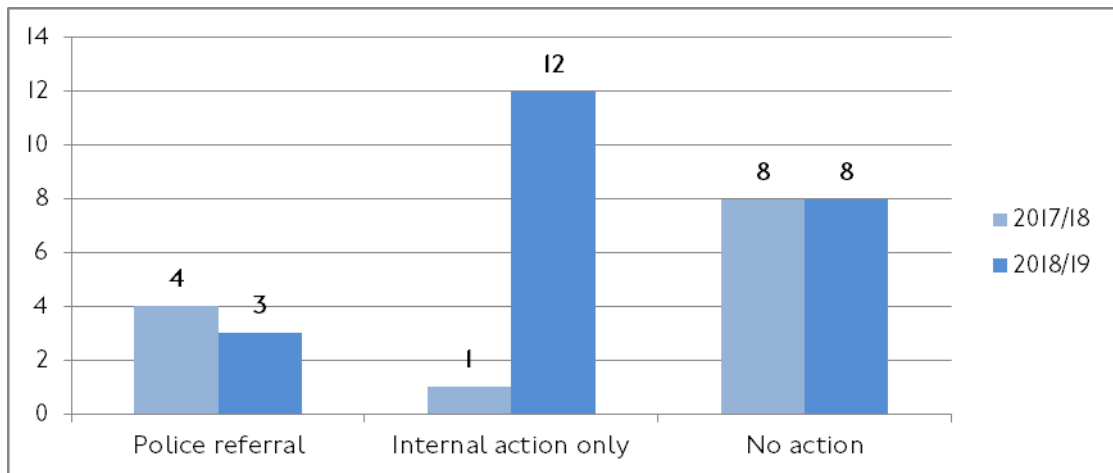
3.12 The Fraud team have managed an increased number of investigations during the year ended 2018/19; with 56 new cases referred to the team, compared to 23 in the previous year. We believe this reflects ongoing fraud awareness activities

and improved interaction with other teams carrying out related activities. In particular, we have developed an effective working relationship with the LU Revenue Control team, which investigates revenue discrepancies at stations. This has led to an increased number of referrals of cases, which previously might have been dealt with solely through the disciplinary process.

3.13 We have reported to the Committee quarterly throughout the year on the status of fraud cases. The new cases in 2018/19 and comparative figures for 2017/18 are as follows:



3.14 During the year 22 cases were closed (2017/18: 13 cases). The outcomes of these cases are summarised as follows.



3.15 During 2018/19, 15 of the 22 closed cases were the subject of either Police referral or internal disciplinary action [68 per cent] (2017/18: 5 of 13 – 38 per cent).

3.16 The number of closed cases that proceeded to police/judicial action has remained broadly similar to the previous year. This is a good outcome given that pressure on police resources means they can be unwilling to pursue lower value cases. This reflects the good relationships that the team maintains with the British Transport Police.

- 3.17 It is pleasing to see an increased number of cases leading to disciplinary action, which indicates that TfL management are taking a robust line when dealing with fraudulent or dishonest behaviour by staff.
- 3.18 We have continued to deliver a range of activities aimed at raising fraud awareness during the year, although this has been impacted to some extent by vacancies in the fraud team. Activities include:
- (a) internal messaging through Source and other media to highlight business and personal fraud risks, and to publicise outcomes of fraud cases leading to prosecutions. This has included increased use of Yammer, the in-house social media platform to highlight fraud matters;
 - (b) in areas with a high fraud risk, delivering a range of fraud awareness presentations and workshops to staff. Call centre staff have been a particular area of focus during the year, and we have recently begun a series of awareness sessions targeting all senior commercial managers; and
 - (c) updated and relaunched online fraud awareness training.
- 3.19 The TfL Executive Committee has recently approved a Counter Fraud, Bribery and Corruption Strategy, including the formation of a Counter Fraud Steering Group, which will lead a structured programme of activities aimed at reducing fraud risk further across TfL.

Other Activity

The Chartered Institute of Public Finance and Accounting (CIPFA): Statement on the role of the Head of Internal Audit.

- 3.20 CIPFA plays a lead role in local government as the standards setter for Internal Audit. On 9 April 2019, CIPFA released a report outlining their revised Statement on the Role of the Head of Internal Audit in Public Service Organisations. The purpose of the statement is to support heads of internal audit, and those they work with in their understanding of how the role should operate in practice.
- 3.21 The TfL Head of Internal Audit has assessed TfL's compliance with the CIPFA statement, and while there are no immediate actions to be taken, will ensure the Internal Audit function continues to improve its ways of working in alignment with the wider expectations of the organisational role.
- 3.22 The statement centres on five key principles. The role of the Head of internal audit:
- (a) plays a critical role in delivering the organisations strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks giving an evidence-based opinion on all aspects of governance, risk management and internal control;
 - (b) plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments;

- (c) must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee;
- (d) must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively; and
- (e) must be professionally qualified and suitably experienced.

Steering Group Participation

3.23 We have continued to be involved in a range of steering groups and other governance bodies. This involvement enables us to provide input on risk management and control matters, as well as allowing observation of project and other governance processes.

4 Quality Assurance and Improvement

- 4.1 In accordance with Public Sector Internal Audit Standards, Internal Audit has an ongoing quality assurance and improvement programme to evaluate our compliance with the Standards and to identify opportunities to improve the effectiveness and efficiency of the function. This is delivered through an annual self-assessment process, but at least every five years we are required to commission an external assessment by a qualified, independent assessor from outside the organisation.
- 4.2 We carried out our annual self-assessment during February 2019. The self-assessment involves a review of Internal Audit's performance against the requirements of the Chartered Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF). We selected a sample of audits for review at random and included 20 per cent of audits completed since the last External Quality Assessment (EQA) undertaken by the IIA in March 2017.
- 4.3 Overall, the self-assessment found that Internal Audit generally conforms to the IIA's professional standards, with partial conformance reported in the following areas:
 - (a) Reference 4: Code of Ethics– Competence / Standard 1230: Continuing Professional Development: Lack of audit specific training budget;
 - (b) Standard 2050: Coordination and Reliance: No formalised assurance map. Internal Audits' 'Collaboration' Workstream is managing this process with Enterprise Risk, Project Assurance and Integrated Assurance;
 - (c) Standard 2240: Engagement Work Programme: Inconsistent adherence to defined process; and
 - (d) Standard 2410: Criteria for Communicating: Inconsistent documentation of closing meetings and no guidance relating external communication of audit results.

- 4.4 The report made recommendations to achieve full compliance and improve the overall effectiveness of the function. The recommendations and the status of the actions are summarised in Appendix 2.
- 4.5 We will monitor the completion of these recommendations, and report progress to the Committee annually.

5 Risk and Assurance Strategy

- 5.1 In September 2018 we presented to the Committee our Risk and Assurance Strategy ('the Strategy'), setting out a programme of work to review and update our processes, systems and ways of working to enable the benefits of integrated risk and assurance to be fully realised. The Strategy incorporates five work streams covering:
 - (a) Culture and behaviours;
 - (b) Governance framework;
 - (c) Integration, collaboration and communication;
 - (d) Capability and people development; and
 - (e) Delivery processes and systems.
- 5.2 Over the course of the year, we have made considerable progress with delivery of the Strategy. Key developments include:
 - (a) our various teams are increasingly enhancing delivery of risk and assurance services through collaborative working. For example, the audit and assurance teams are leveraging the work of the risk team to assist assignment planning; the Internal Audit and Fraud teams share information regarding fraud risk; and there has been joint working on assignments to make best use of specialist knowledge;
 - (b) more collaborative working with IIPAG; we shared our Integrated Assurance Plan for 2019/20 in advance of its publication. We have identified a number of areas where we will seek IIPAG's input into our work and where our work may inform theirs;
 - (c) we have strengthened governance across a range of areas, including implementation of a new Internal Audit Charter; new Enterprise Risk Management Policy and Procedure; and Anti-Fraud and Corruption Policy and Procedure. Most recently, the TfL Executive Committee has approved our new Counter Fraud, Bribery and Corruption Policy;
 - (d) our audit and assurance teams have been working to streamline their processes and improve the format of reports in order to make them more impactful as well as identifying common themes to enable in depth reviews of particular crosscutting issues; and

- (e) We have let a contract to MK Insight for a new audit management system to replace the legacy AutoAudit system that has been in use for the past 15 years. We believe the new system will significantly enhance our ability to effectively manage audits and fraud cases and produce reports on delivery. Work to implement the new system is now underway,
- 5.3 Despite the progress we have made there is still more to do before we fully realise the benefits from our integrated function. The development of a competency framework for the Directorate will be a key focus in the next few months.

6 Resources

Headcount

- 6.1 Following our Transformation programme during 2017/18, which led to the formation of the Risk and Assurance Directorate in February 2018, we began the financial year with a significant number of vacancies. This was most pronounced in the Internal Audit team, which had seven vacancies (one senior audit manager, and six internal auditors) against its budgeted headcount of 21. There were also two vacancies in each of the Project Assurance, Integrated Assurance and Fraud teams. Therefore, there has been a strong focus on recruitment during the year, with many new faces joining the team, but also a substantial number of leavers.
- 6.2 Two senior department leavers were our Head of Project Assurance and Head of Fraud, both of whom left to take up new roles outside TfL. Both roles have now been filled and the post holders are settling well into their new roles.
- 6.3 At the end of the financial year, we were still carrying a number of vacancies. This included two in Fraud; one in Project Assurance; and two in Integrated Assurance. All but one of these posts has been filled since the year-end.
- 6.4 In Internal Audit there were four vacant posts at the year-end including the Senior Internal Audit Manager – Technology, Information and Security (TIS) post, which has been vacant throughout the year having proved to be challenging to fill; one TIS Internal Auditor post (filled since the year-end); and two general Internal Auditor posts. Recruitment to fill these roles is in progress. In addition, we took a decision to put a further two TIS Internal Auditor posts on hold, with the aim of covering the work through a co-sourcing arrangement with an external provider (see below).

Staff training and Development

- 6.5 All Internal Audit staff are expected to have, or work towards, a relevant audit qualification from a recognised certification body (eg the Chartered Institute of Internal Auditors (IIA)). Auditors with an IT specialism are required to obtain the Certified Information Systems Auditor (CISA) certification from ISACA. There are no mandatory requirements in other teams within Risk and Assurance, but individual staff have a wide range of professional qualifications relevant to their specialisms.

- 6.6 Staff have various requirements for Continuing Professional Education (CPE) associated with their professional qualifications. Additionally, we agree and monitor individual training and development plans for members of staff through the performance management process.
- 6.7 Ensuring that staff receive appropriate training and development has become more challenging as a result of TfL's restrictions on attendance at external training courses. We seek to manage this by taking advantage, wherever possible, of free training places offered by professional bodies and making use of other types of development opportunity, including e-learning, work-shadowing and mentoring.

Co-Sourcing

- 6.8 In the summer of 2018, we put in place a co-sourcing contract with an external provider, for specialist Internal Audit services. This was intended to help us deliver the technology and security related audit work identified on the 2018/19 plan.
- 6.9 Unfortunately, the delivery from our co-source partner was below expectations, with only two out of a planned six audits completed during the year. The co-source partner has only been paid for the work delivered and the contract has now expired. We plan to put in place a new co-sourcing framework with a number of providers on it to give us flexibility regarding delivery of audit work during 2019/20.

Secondments

- 6.10 One area where we have had some success during the year is through use of secondments, both inward and outward. Secondments are a useful means of filling staff vacancies, but also valuable in helping provide development opportunities to staff.
- 6.11 We currently have four staff members on secondment to other parts of TfL and three staff from elsewhere in TfL seconded into Risk and Assurance.
- 6.12 We have also provided opportunities for moves, on a secondment basis, between teams within Risk and Assurance. One member of the Risk Management team is currently on a one-year secondment into Internal Audit, while a member of Internal Audit is about to start a secondment to Risk

7 Stakeholder Feedback

- 7.1 At the end of every audit engagement, we send out a feedback form to the principal auditee(s) requesting their views on the audit process and the report.
- 7.2 In the year ended 2018/19, the return rate for completed feedback questionnaires was 62 per cent, across both the Internal Audit and Integrated Assurance teams. This represents an increase over the 57 per cent achieved in 2017/18. The summary of scores received in the year, and in previous years, is as follows:

	Very Good %	Good %	Satisfactory %	Poor %	Very Poor %
2018/19	50%	41%	9%	0%	0%
2017/18	48%	37%	12%	2%	0%
2016/17	45%	39%	14%	2%	0%

- 7.3 The majority of respondents continue to be satisfied with the way we carry out our work, and there has been no significant change in the proportion of 'poor' scores compared to 2017/18. All feedback which is less than satisfactory is followed up by Internal Audit management to ensure the concern is understood, discussed with the audit team and lessons learned where appropriate.
- 7.4 During the year 2019/20, we plan to review and refine the format of the questionnaire to encourage a higher response rate, and to provide better insight into stakeholder experience of our audit delivery.

List of appendices to this report:

Appendix 1 – Overview of Internal Audit Work 2018/19
Appendix 2 – Internal Quality Assurance and Improvement Action Plan

List of Background Papers:

Audit reports.

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