Audit and Assurance Committee

Transport for London

Date: **15 June 2012**

Item 10: **Internal Audit Annual Report 2011/12**

This paper will be considered in public

1 Summary

1.1 The purpose of this paper is to summarise Internal Audit activity for the year ended 31 March 2012, to account for the use of resources and provide an opinion on the internal controls as required by the CIPFA Code of Practice for Internal Audit in Local Government.

2 Recommendation

2.1 The Committee is recommended to note this report.

3 Audit Opinion

3.1 Based on the work the Department has completed during the course of the year, which is set out in more detail below, and taking into account other sources of assurance including:

(a) reviews carried out as part of the Corporate Gateway Approval Process (including the work of the Independent Investment Programme Advisory Group);

(b) the work of other management assurance teams;

(c) a review of the Control Risk Self Assurance exercises within TfL; and

(d) the assurance letters prepared for HSE, Resilience, and Games Readiness,

we have concluded that TfL's control environment is adequate for its business needs and operates in an effective manner.

3.2 There have been no matters arising from any of the work we have completed that require to be brought to the attention of the Audit and Assurance Committee.

3.3 There have been no restrictions imposed on the scope of the internal audit function.

3.4 In addition, using assurance gained from our audit work on governance matters we can conclude that TfL's code of governance, including internal control, is adequate and effective.

4 Work Done

Introduction

4.1 Internal Audit work falls into two main areas namely audit assurance as set out in the Audit Plan; and Fraud Awareness, Prevention, Detection and Investigation. In addition, we provide advice on controls and processes both via reviews and by attendance at working groups. The sections below explain the work that has been done in these areas in the past year.

Audit assurance

4.2 In any year, the Audit Plan can change significantly as projects and procurements are revised or deferred 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, although we have a view as to the work we aim to complete during the next twelve months.

4.3 The proportion of time spent by business unit was:

	Actual 2011/12 (%)	Plan 2011/12 (%)
Pan TfL	44.5	39.0
Rail and Underground	8.9	13.9
Surface Transport	7.0	6.4
Finance	14.1	12.2
Planning	1.0	0.6
One HR	1.7	6.0
Marketing and Comms	1.4	2.7
General Counsel	3.6	2.5
Tube Lines	2.8	1.6
Crossrail	11.9	11.9
Other (LTM/ Pension Fund)	3.1	3.2
	100	100

4.4 The actual time analysed above includes time spent on audits brought forward from the 2010/11 plan.

4.5 The main variations in time allocations between plan and actual are a lower proportion of time allocated to Rail and Underground, with high proportions on Pan

TfL and Finance. This in part reflects TfL's move towards central shared services, as a result of the organisational review. There were also two contract audits planned in London Rail that have been deferred to 2012/13 as a result of changes to the programmes that were to be reviewed.

4.6 A number of audits in the 2011/12 Audit Plan were still in progress at 31 March. We also completed some audits carried forward from the 2010/11 Audit Plan during the year. The number of Interim Audit Reports and other outputs, including advisory reports and memorandums, issued during the year and in 2010/11 are set out in the table below. The reduction in the number of reports issued during the year by comparison with the prior year reflects the 25 per cent reduction in the department's headcount at the start of the year following our organisational change programme (see section 4 below).

| | Interim Audit Reports | | | | | Other Outputs (Advisory Reports/ Memos) | |
	Well Controlled	Adequately Controlled	Requires Improve-ment	Poorly Controlled	Total		Total
2011/ 12	12	17	39	2	70	23	93
2010/ 11	13	45	50	4	112	10	122

4.7 Overall, our work indicates that the standard of control remains at a similar level to 2010/11. Although the proportion of 'requires improvement' conclusions has increased by comparison with the previous year, this largely reflects a shift in the balance of our work. Specifically, a high proportion of the adequately and well controlled conclusions in 2010/11 fell into the projects and contracts area, which is the section of the department that had the greatest reduction in staffing as a result of organisational change.

4.8 The two audits with 'poorly controlled' conclusions both related to areas of IM governance. This continues to be an area in which we identify a significant number of control issues and will continue to be an important area of focus for our work.

4.9 The table above shows that a larger proportion of our outputs during 2011/12 were memorandums and advisory reports rather than interim audit reports. This reflects a finding from the strategic review of Internal Audit in 2010, where TfL management indicated that it would be helpful to be able to seek advice from Internal Audit on control issues, without this always leading to an audit report. We believe that this

advisory work has been generally welcomed by the business, whilst still delivering effective assurance.

4.10 A more detailed summary of audit work carried out during the year can be found in Appendix 1.

4.11 We follow up previously issued interim audit reports to confirm that agreed management actions have been implemented, and issue a final audit report of our findings. Follow up audits and resulting final reports indicate that management action plans agreed as part of the audit process are being completed effectively and on a timely basis. Out of 77 final audit reports issued, there were only four that we were not able to close as a result of actions being incomplete.

Other Work

4.12 In addition to the planned audit work above, we have also continued to be involved in Programme Boards and Steering Groups for major projects and other governance bodies, and have been represented on the following during the year:

    (a)   Assurance Delivery Group

    (b)   IM Steering Group

    (c)   SAP GRC Governance Council

    (d)   YourIM Business Sponsor Group

    (e)   IM Security Peer Review Group

    (f)   Games Transport Safety and Security Board

    (g)   Heads of Procurement Meeting

    (h)   Efficiencies, Savings, Transformation and Revenue Group (ESTaR)/ Efficiencies Delivery Board

    (i)   Accommodation Strategy Programme Board

    (j)   Staff Recognition Working Group

    (k)   Crossrail Integrated Assurance Group

    (l)   Crossrail Fraud Risk Assurance Group

4.13 This involvement enables us to provide input on risk management and control matters at an early stage in major projects as well as allowing observation of project and other governance processes.

Other Assurance Providers

4.14 Throughout the year, we have received regular updates on the assurance work carried out by the LU and Tube Lines HSE audit functions and on project assurance work carried out as part of the CGAP process, including the work of IIPAG. Copies of reports prepared by these teams have been shared with us as required. A

summary of this work has been included in the Director of Internal Audit's quarterly reports to the Audit Committee, and it has been taken account of in arriving at the overall conclusion on the effectiveness of TfL's control environment.

4.15 In Crossrail, there are also a number of other teams providing assurance over delivery of the project. This includes a small compliance audit function, whose work is now managed by the Senior Audit Manager – Crossrail, which carries out technical audits of compliance with the Crossrail Management System; a contractor commercial review function; and a contractor HSQE audit function. The work of these teams is taken into account in reaching an overall view on control effectiveness in Crossrail.

Control Risk Self Assurance (CRSA) including assurance letters

4.16 CRSA is a process that enables management to assure themselves that key controls are operating across a whole process. It can reduce, but not eliminate, the need for internal audit. The CRSA returns are reviewed by Senior Audit Managers to ensure they are in line with audit findings during the year and to ensure the assurance gained is taken into account for the internal audit opinion. Any differences are discussed and resolved. LU also has a 'Statements of Internal Control' process which complements CRSA and is similarly subject to Internal Audit review.

4.17 Separately to the CRSA process, TfL also produces annual assurance letters for HSE and Resilience, which are also reviewed by Internal Audit.

4.18 In the run up to the Games 2012, TfL has also been operating a Games Assurance Letters process to assess the organisation's operational readiness for the Games.

Fraud Prevention, Detection and Investigation

4.19 During the year, a total of 17 fraud awareness sessions were delivered and we also held the fourth TfL Fraud Awareness Week in December, which included publicity with posters and static stands at head office buildings including Crossrail and Tube Lines Limited. During the week, we distributed leaflets to TfL staff advising then about protecting the organisation, and themselves.

4.20 We have continued to use data analytical techniques not only in support of ongoing investigations but also in our preventative work to provide assurance that processes are not being abused for fraudulent reasons.

4.21 We continue our work with Crossrail on their counter fraud plan and strategy and information from the high level fraud risk workshops facilitated by the Fraud Team has been converted by Crossrail into a fraud risk register with actions and owners. We are now in the process of implementing a similar process and strategy in Tube Lines Limited.

4.22 There were 41 new cases reported during 2011/12, added to the 13 cases brought forward from 2010/11. There were no significant trends identified from our investigations.

4.23 Closed investigations of note were:

(a)   Working elsewhere whilst off sick. The Fraud Team conducted an investigation into an employee who worked at the Royal Mail as a Christmas casual while recorded sick at TfL. The employee agreed to reimburse TfL for any wages paid whilst he claimed to be sick. He received a formal police caution and, following a TfL disciplinary process, he was dismissed from TfL.

(b)   Cloned credit cards used to purchase Oyster Pre Pay. We continue to work with the BTP to identify and apprehend criminals involved in credit card fraud. Joint TfL /BTP operations resulted in the arrest and charging of seven men and recovery of over 1,000 cloned credit cards and a credit card 'factory'. The loss to TfL is minimal but the purchase of an Oyster card is often used by criminals to prove the cloned card works before they go on to buy expensive products.

(c)   Visitor Oyster cards sold on eBay. The Fraud Team investigated two people who were offering pre loaded Visitor Oyster Cards for sale on the eBay website that had been supplied to EasyJet. A joint TfL/BTP investigation resulted in the arrest and charging of the two eBay sellers and two Gatwick Airport cleaners who had access to EasyJet products prior to them being loaded on to the aeroplane. As EasyJet no longer sell Visitor Oyster Cards, there are no outstanding control issues arising from this investigation.

4.24 The disposal of cases throughout the past year (previous year's totals in brackets) is as follows:

	Investigations	
In Progress at 1 April 2011		**13 (32)**
New since 1 April 2011		**41 (45)**
	No Crime/ Offence established	**22 (36)**
	Disciplinary Action Taken	**3 (7)**
	Police/ Judicial Action Taken	**10 (21)**
Closed since 1 April 2011	Sub Total	**35 (64)**
In Progress at 31 March 2012		**19 (13)**

4.25 The 41 new investigations consist of 25 (26) fraud cases, 14 (14) reports of theft and 2 (5) 'other' types of cases. There is a significant difference in the number of closed cases compared to last year as the Fraud Team conducted a major review of old cases in 2010/11 resulting in a large number being closed.

4.26 Reports were received from the following sources:

Source	2011/12	2010/11
Internal Control	7	4
Staff Member	15	23
Member of Public	5	10
Law Enforcement Agency	3	3
Anonymous	1	2
National Fraud Initiative	10	3
Totals	**41**	**45**

5 Resources

Staff

5.1 Following the Strategic Review of Internal Audit in 2010/11, the department's new organisational structure went live on 9 May 2011, with a budgeted headcount of 42, reduced from 57 prior to the organisational change.

5.2 The Senior Audit Manager – Business Processes was appointed as Director of Internal Audit on a permanent basis in September, having carried out the role as Interim for nearly two years. The consequential SAM vacancy has been filled by the Audit Manager who had been carrying out that role on an interim basis. The resulting Audit Manager vacancy was filled by one of the Internal Auditors following a competitive internal process. Recruitment is in progress to fill the Internal Auditor vacancy.

5.3 There were few other staff changes during the year. Two IM auditors left, in July and September, to take up positions outside TfL. Both positions have now been filled through external recruitment.

Staff training and development

5.4 Our training strategy sets out the standards we require for all staff both to maintain their existing professional qualifications and to ensure they receive sufficient continuous training in internal audit and fraud investigation (as appropriate) to keep them up to date with best practice. All of our joiners into audit positions who do not have previous audit experience must complete the IIA's Certificate of Internal Audit during their first year in the department. In addition, during the year three members of the department have passed their examinations for the IIA's Diploma, which is the next level of professional internal audit qualification. One member achieved his Advanced Diploma qualification.

5.5 We monitor training to ensure all staff are achieving the requisite standard. We have kept within our reduced training budget through judicious selection of courses, including making use of free or discounted courses where possible, and are

comfortable that the training provision is sufficient for us to maintain our high standard of professionalism.

Co-sourcing

5.6 Our co-sourcing contract with Ernst & Young, which had been in place for a number of years, expired in April 2011 and has not been renewed.

5.7 Instead, a GLA-wide contract for Specialist Internal Audit Services with RSM Tenon has been established following a competitive tendering process. We will be able to use that contract to help us resource our audit work if required, but in practice we expect that use of the contract will be infrequent.

6 Internal Audit Processes

6.1 Following the Internal Audit organisational change at the start of the year, we established a number of internal working groups, to review various aspects of the department's processes and ways of working. The purpose was to address matters arising out of the Internal Audit Strategic Review that took place during 2010. Outputs include defined processes for carrying out consultancy reviews; clearer working arrangements between the audit and fraud teams, including more use of proactive fraud audits; a more formal approach to identifying and disseminating good practice identified through our work; enhancements to audit processes, including a revised audit report format; and improvements to the department's performance management. The majority of the planned changes have come into effect from 1 April 2012.

6.2 We carried out our annual internal assessment of our performance as part of our ongoing Quality Assurance and Improvement Programme (QA&IP). This year we have assessed ourselves, for the first time, using the Chartered Institute of Internal Auditors (IIA) QA&IP procedure and evaluation tool. This enables a systematic comparison of the organisation, management and practice of internal audit in TfL to the mandatory aspects of the International Professional Practice Framework (IPPF) of the IIA. The IPPF is made up of the Definition of Internal Auditing, the Code of Ethics and each International Standard. Overall, we found that our processes are compliant with the IPPF, but we will make some minor changes to our Audit Manual to ensure some aspects of the Framework are more explicitly covered. As in previous years, a selection of audits were also reviewed with the focus being on ensuring that critical areas of the audits had been carried out in accordance with the audit manual, including following up on issues raised in previous reviews.

6.3 We are currently liaising with KPMG to arrange their external review of Internal Audit's effectiveness, in accordance with IIA Standards, which will be carried out during 2012. KPMG's previous review took place in 2008. The findings from the review will be reported to the Audit and Assurance Committee in due course.

7 Integrated Assurance

7.1 During the year, the Assurance Delivery Group, supported by Internal Audit and the other assurance providers, has developed the TfL Integrated Assurance Framework, approved by the Leadership Team and Audit Committee in September 2011, and the 2012/13 Integrated Assurance Plan, approved in March 2012.

7.2 Internal Audit met regularly with representatives of other assurance providers, including the LU and Tube Lines HSE audit teams, and the Head of the TfL PMO, both as part of the process of developing the Integrated Assurance Plan, and more generally to ensure that any potential areas of overlap are properly managed. Working relationships have developed strongly over the course of the year, with a number of areas for joint working identified.

7.3 To help inform the development of integrated assurance across TfL, a peer review was undertaken with the LU HSE and Tube Lines HSE and Commercial audit teams. The review team adopted a collaborative approach to assess standards and working practices in order to place reliance on the assurance being provided. This included the identification of good practice and opportunities to improve the consistency of audit delivery.

8 Benchmarking and Networking

8.1 To ensure that TfL's Internal Audit department remains up to date and understands best practice, it is important that we meet and work with other Internal Auditors and Fraud Investigators as well as attending and speaking at conferences relevant to our professional and business needs. The department has memberships of the Chartered Institute of Internal Auditors (IIA), CIPFA and the Association of Certified Fraud Examiners among others, which means we receive copies of publications, newsletters and updates from these bodies that assist in ensuring that we are up to date.

8.2 Members of the team also belong to a range of external bodies, including the CIPFA Procurement and Contract Audit Forum; the London Audit Group; the Working Group of the IIA Technical Committee; the Information Systems, Audit and Controls Association; the Association for Project Management (APM) Specific Interest Group on Assurance; the APM Audit and Performance Review Committee; the Institute of Risk Management; the Institute of Occupational Safety and Health; the Security Institute; the London Fraud Forum; the National Federation of Fraud Forums; the National Fraud Authority Public Sector Procurement Fraud Working Group; and the Fraud Advisory Panel.

8.3 We have been leading work, through the APM, in liaison with a number of organisations including the Government Efficiency and Reform Group, to develop general guidance on how organisations can integrate their assurance activities across their investment programmes. A draft guide is now under review with a number of nationally-recognised senior assurance-related project professionals. We

have also provided active input to, and review of, the APM's refreshed Body of Knowledge, which is an integral element of the APM's development as a Chartered Body setting standards and awarding qualifications in project management.

8.4 Building on the guidance paper entitled 'An Introduction to Projects and Project Auditing' that we produced for the IIA during 2010/11, we are now developing this into a Guide to Project Auditing for the APM, and writing a further paper for the IIA on auditing of projects that are in their early stages.

9   Customer Feedback

9.1 At the end of every audit, we send out a customer feedback form to the principal auditee(s) requesting their views on the audit process and the report. The form is questionnaire based so it can be completed easily and quickly. A copy of the questionnaire, including a detailed analysis of the results, is included in Appendix 2.

9.2 Our return rate for feedback forms was disappointing in 2011/12 at only 48 per cent, down from 69 per cent in 2010/11, which was the highest return rate that we had ever achieved. However, the results from the feedback forms are encouraging. The summary of scores for 2011/12 and prior years is set out in the table below.

	Strongly Agree %	Agree %	Disagree %	Strongly Disagree %
2007/08	35	56	7	2
2008/09	32	56	10	2
2009/10	40	51	8	1
2010/11	37	51	11	1
2011/12	46	49	5	0

9.3 The majority of respondents are satisfied with the way we carry out our work and, for the first time, we received no 'Strongly disagreed' scores during the year, whilst the proportion of 'Disagreed' scores, at five per cent, is the best we have achieved. The commonest adverse comment continues to relate to the length of time it can take to complete the fieldwork and issue the draft report, and we continue to work to address this. All feedback which is less than satisfactory is followed up by the Director of Internal Audit to ensure the concern is understood, discussed with the audit team and lessons learned where appropriate.

List of appendices to this report:

Appendix 1 – Overview of Internal Audit Work 2011/12
Appendix 2 – Customer Feedback Form – Summary of Responses for 2011/12

List of Background Papers:

Audit reports.

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Overview of Internal Audit Work - 2011/12

1 Background

1
1.1 The 2011/12 Internal Audit Plan highlighted some key themes that would be covered by our work during the year. The following paragraphs set out our work done in respect of those key themes and in other areas.

2 Efficiencies Delivery

2.1 Continuing with work started in 2010/11 we reviewed further elements of the Efficiencies Delivery Programme to provide assurance over the arrangements that have been put in place to ensure delivery of planned savings. Efficiencies delivery will continue to be a key theme in our 2012/13 audit plan. Our audits of Efficiencies Delivery in LU, and of the IM Savings project, were both concluded as 'adequately controlled'.

2.2 Our planned audit on the overall Governance of Efficiencies Delivery was superseded by the Fresh Eyes Review carried out by Deloitte. However, Internal Audit provided input and information into this review through a number of meetings and discussions with the Deloitte review team.

2.3 The planned audit work on the non permanent labour efficiencies work stream was cancelled due to a change in TfL's strategy in this area. We plan to carry out some work on non permanent labour during 2012/13.

3 Project and Contract Management

3.1 We issued 18 audit reports in 2011/12, four consultancy reports, and two memorandums. Six of the audit reports had a 'Requires improvement' conclusion, five were 'Adequately controlled' and six 'Well controlled'. This constitutes a larger proportion of 'Adequately controlled' and 'Well controlled' conclusions than in previous years, reflecting continued improvement in TfL's control environment for commercial activities.

3.2 The audit reports and memoranda result from a diverse mix of audits, including 13 of specific projects, procurements and contracts, and seven of more general project and contract management processes.

3.3 The conclusions from the audits of specific projects, procurements and contracts were generally positive with five being 'Well controlled' and a further five being 'Adequately controlled'. One noteworthy piece of work was our review of the benchmarking data used in the business case for continuing with the incumbent supplier for the Northern Line Signalling Upgrade project, which was carried out at the request of the Finance and

Policy Committee. We concluded that appropriate benchmarking data had been used, but that there was scope for improving the control environment around the review and approval of such data going forward.

3.4 One of our general project management process audits was of the Corporate Gateway Approval Process, which is the primary means by which TfL gains assurance over projects. We place reliance upon the CGAP in providing assurance over delivery of the Investment Programme, and it is therefore essential that we can be confident in its effectiveness. We concluded that the process was a significant improvement upon previous Investment Programme governance review and approval arrangements. However, we made some recommendations for how the process could be enhanced further and overall we concluded that it required improvement.

3.5 Two other significant project management process audits that we carried out (both of which had a 'Requires improvement' conclusion) were over the control of documents in projects, and controls over the decommissioning of assets. In the former, we found that the control of documents is generally good but with inconsistency over systems being used, and a lack of a clear TfL-wide strategy for ensuring system compatibility, cost effectiveness and maintenance of data. In our audit of asset decommissioning, we found that frameworks exist for this, and there was some good practice in the projects we reviewed to achieve best value, but the frameworks were not widely publicised and used, and there was no policy to ensure that best value is always obtained.

3.6 We also audited the Association for Project Management accredited Pyramid programme for the development of project management staff, concluding that it is 'Well controlled', in that it continues to provide a well-constructed and executed service to the business.

3.7 We completed three significant and varied pieces of consultancy work during the period, each of which led to us issuing an advisory report to management. This type of work is relatively new to us, but our experience to date is that it is valued by management, and, while not resulting in an audit report with a conclusion, nevertheless delivers valuable assurance to the business. These reviews are described in the following paragraphs.

3.8 Our review of the performance management regime within London Streets, which had commenced during 2010/11, noted a number of areas of good practice, but also identified some areas where the opportunity exists to improve staff understanding of the performance measures, data assurance and benchmarking, and to share good practice. One key output from this review was a performance management maturity model that can be used by the business going forward. We have been asked to carry out a refresh of this review in due course, and to carry out similar reviews, using the maturity model, in three other areas of Surface Transport.

3.9 We also carried out a comparative review of how milestone management is used in project delivery across a range of projects and TfL business areas. Our report concluded there would be benefit to the organisation in adopting a more consistent approach to milestone management based on the good practice that exists in some areas, and made some recommendations for how this could be achieved.

3.10 The third piece of work stemmed from a recommendation we had made in a previous audit that management should carry out routine audits of suppliers on the Engineering and Project Management Framework. We were asked to work with management in auditing a sample of these suppliers. Our report highlighted a variety of issues and recommendations for management to ensure suppliers' compliance with the contract.

3.11 There were a number of audits in progress at the end of the year including a review of fraud risk in projects and contracts, an audit of the management of TfL's archiving contracts, and a review of TfL's relationship with the IIPAG. We are also working closely with the new TfL and Rail and Underground Commercial functions, to provide assurance over their delivery of the new Commercial Strategy.

4 IM Governance

4.1 As part of Project Horizon, Your IM and LU IM were brought together during the year to form a single IM function within TfL. This has been the fourth year of significant change within the IM community and has also seen the appointment of a new Chief Information Officer during the summer of 2011. The continuing change has brought a further review of the operating model used by IM, and the initiation of a transition programme to deliver new governance structures and operating procedures based on best practice.

4.2 Against this background of change, it has been important for us to ensure that as well as performing audits in all parts of TfL, we have continued to take part in steering committees and programme board meetings. This affords the opportunity to provide challenge, understand the implications of organisational changes and observe governance processes in action.

4.3 In 2011/12, we issued 14 interim audit reports and one memorandum related to different aspects of IM governance. Of the reports, two were concluded as 'Poorly controlled', eight as 'Requires improvement' and two were 'Well controlled'. The number of 'Poorly controlled' reports has remained constant from the previous year and is an indication that the control environment needs a period of stability for it to mature further.

4.4 One of the audit reports rated as 'Poorly controlled' was in respect of 'Security of Laptop Computers'. The report identified that there was no up-to-date and consistent register of laptops, and raised a number of other significant control issues. We have now carried out a follow up

review and found that management have implemented a series of initiatives to address all of the issues raised. This has included an exercise to recover laptops and other items of IT equipment that are no longer required, which has led to financial savings on support costs. The audit is now closed.

4.5 The other 'poorly controlled' audit report was entitled 'OneLondon End User Applications - Software Licensing'. This report identified weaknesses in the control framework for managing software licences and that there was no consolidated inventory of software within TfL which encompassed entitlement and deployment. IM are currently working to address these issues and a follow-up audit to confirm that the issues have been satisfactorily addressed will be carried out later this year.

4.6 Out of the reports concluded as 'requires improvement' the following three were among the more significant:

(a) Our audit of SAP Programme governance noted that there was no clear strategy for the development of SAP and no mature processes for converting business demand into pipeline activities. Subsequent to the audit IM have implemented a 'Run Better' programme which will assess the future of SAP together with other 'best of breed' applications, and define and facilitate a robust governance process with key stakeholders in the business. We intend to participate in various steering committees that form the programme of work and additionally run a real time audit to ensure that best practices are adopted.

(b) Our audit of OneLondon Governance and Stakeholder Management also raised concerns over a lack of a clear strategy for the delivery of the OneLondon programme of works. We have subsequently carried out a follow up review, which confirmed that management has satisfactorily addressed the issues raised.

(c) We also carried out an audit of the logical security applied to the Oracle databases that hold the underlying data used by SAP. The audit identified that while overall access levels by employees were well controlled there were a number of logical security weaknesses. Subsequent to the audit, these weaknesses have been reviewed by TfL and Axon and a more robust control environment has been developed and implemented.

5   Core Financial Controls

5.1 During the year, we have issued ten audit reports, two advisory reports and three memorandums under the Core Financial Processes heading. Of the reports, eight were 'requires improvement', and the other two were 'adequately controlled'. Some of the more significant audits are discussed in the paragraphs below.

5.2   We carried out an audit of Payroll and found that the Payroll Services operations were working well with effective arrangements in place over the running of the payrolls including the management of exceptions and payments to both staff and third party vendors. We did, however, identify a need to strengthen the SAP configuration of payroll controls around user access and a lack of a central repository of critical system configuration information leading to a 'requires improvement' conclusion.

5.3   We carried out two advisory reviews in Tube Lines, one covering financial controls (accounts payable and receivable, cash management, general ledger, and associated IM controls), and the other covering payroll. The purpose of the reviews was to inform a forthcoming upgrade to Tube Lines's Oracle Financials system so that any findings from our work could be incorporated into the new system configurations. We identified a number of recommendations for control improvements, which were accepted by Tube Lines management. We will carry a follow-up audit during 2012/13, once the Oracle systems upgrade has been implemented to ensure that the revised systems are operating effectively.

5.4   We carried out an audit of the effectiveness of the controls around the recovery and collection of funds from third party insurers. The audit identified a number of issues, including a lack of consistent policies or procedures for seeking recoveries from third parties, and concluded that this area required improvement.

5.5   We carried out financial health check audits on key financial controls within the Travel Information Centres (TIC) and Victoria Coach Station (VCS). In the TIC, we found that controls were generally effective, but identified errors in the spreadsheet journal used to post TIC sales to the relevant SAP accounts resulting in non-material inaccuracies. We, therefore, concluded that TICs' key financial controls required improvement. In VCS, we did not identify any significant issues and we concluded that VCS's core financial processes are adequately controlled.

5.6   We also carried out an audit of controls in place over business expenses. We found that there had been clear improvement in this area since our previous audit in 2009. However, we did identify some areas where controls could still be improved further, particularly in respect of the clarity of guidance for staff on what expenditure is permissible and record keeping with regard to purchasing cards.

5.7   We carried out two pieces of work during the year in relation to Barclays Cycle Hire. The first of these concerned an incident where a number of users had received incorrect billing notifications. Internal Audit was requested to review the steps being taken by Serco to address the underlying issue that had led to this error and provide assurance that they were adequate.   The second audit aimed to provide assurance that controls are operating effectively over Cycle Hire financial systems and that Cycle Hire financial transactions are correctly accounted for in TfL's

financial accounting records. A number of issues have been identified by this review, and our audit report is in the process of being finalised.

5.8 Three other audits, of cash forecasting; treasury management; and financial controls over payments to contractors on major projects in LU were in progress at the year end.

6 Games Delivery

6.1 We are providing ongoing assurance regarding the TfL's Games Assurance Letters process that has been established to assess the state of TfL's preparedness for the Games. We issued a memorandum regarding the first tranche of letters, which found that the process appears to be robust and comprehensive, with no significant gaps or weaknesses. We are currently carrying out further work in respect of the third tranche of letters.

6.2 We have also been working with the Community, Safety, Enforcement and Policing Directorate to provide advice and assurance on a real time basis that the security risks affecting TfL prior to and during the Games are being correctly managed. This work will continue up to, and through, the Games period.

6.3 We also carried out a review, at the request of management, of the security, availability and resilience of some key IM applications required by Surface Transport during the Games. The report noted that discussions between the Traffic Systems team and IM to agree an operating model for the Games were nearing completion. The report also raised some issues regarding logical access controls and password management.

7 Other – Human Resources

7.1 An audit was carried out on TfL's staff induction processes and a number of significant issues were identified. In particular, there was no clear ownership of the process, the process had not been reviewed for effectiveness since its introduction in 2008, and it was not being applied to staff transferring into TfL under TUPE arrangements. We concluded that control over the staff induction processes requires improvement.

7.2 We also reviewed the effectiveness of the arrangements in place across TfL to ensure that reasonable adjustments are made, where appropriate, for both newly recruited and current disabled staff. We found a number of areas of good practice, but also noted weaknesses in the communication of the policy and procedures, and that records did not fully reflect the full extent of the provision of reasonable adjustments across TfL. We concluded that the control arrangements required improvement.

7.3 Additionally, during the year we have worked with the business on ensuring that the correct pre-employment screening controls are in place

at agencies that provide TfL with permanent and non permanent staff and made a number of recommendations for tightening up controls.

7.4 A number of other planned audits relating to HR have been cancelled or postponed to 2012/13 in order to give the new OneHR the chance to embed new ways of working following the recent organisational change

8 Other – Security

8.1 The work under this heading is a mixture of security audits and real time/ consultancy work to support the business.

8.2 We audited the security arrangements at TfL's SAP hosting site in Belfast and found these to be well controlled. We also completed a review of the physical security risks associated with the Barclays Cycle Hire Scheme. We highlighted a number of areas for improvement as our work progressed, which were promptly addressed, and consequently we issued a memorandum at the end of our audit confirming that the controls in place were effective.

8.3 During the year we have continued to work with Group Treasury to support TfL's activities aimed at obtaining Payment Card Industry Data Security Standard (PCI DSS) certification. One of our auditors is now a fully accredited PCI DSS Internal Security Assessor and we are able to identify areas of concern to the Qualified Security Assessor (QSA), improve PCI DSS controls and reduce the amount of time (and thus the cost) that the QSA spends with TfL in the future.

8.4 We have also provided assistance and support to LU following the receipt of a revised set of security instructions from the DfT. In particular, we have worked with LU Network Security to carry out a GAP analysis between the revised instructions and LU's existing processes, identify any necessary changes and ensure processes are properly documented.

8.5 An audit of the security of TfL Websites and their resilience against external cyber attacks was in progress at the year end.

9 Other – Governance and Assurance

9.1 During the year, we have carried out a number of audits covering aspects of TfL's overall corporate governance arrangements

9.2 We carried out a review of the control risk self assurance (CRSA) process including an examination of the accuracy of self assessment returns. Overall, the CRSA process appeared to be operating effectively. Our report noted that there would be a need to embed revised processes for administering the process following organisational changes.

9.3 We audited the arrangements in place across TfL for incident and RIDDOR reporting. We found many areas of good practice and all areas of TfL had a comprehensive Health Safety and Environment Management

System in place including incident recording and reporting systems, some of which are quiet sophisticated. We did raise some issues and concluded that controls required improvement. We have since carried out a follow up review and found that the agreed remedial actions had been satisfactorily addressed.

9.4 We carried out an audit, at the request of management, on the implementation of the requirements of the Bribery Act 2010 and found that TfL had adequate arrangements in place.

9.5 We also carried out a review, as part of TfL's Board Effectiveness Review, benchmarking TfL's governance arrangements against the relevant provisions of the UK Code of Corporate Governance applicable to listed companies. We did not identify any significant areas of non-compliance with the code.

9.6 We also reviewed TfL's preparedness for the 2012 Mayoral election. We found that TfL has successfully initiated the process of preparing for the election.

9.7 An audit report from our review of the implementation of TfL's Information Classification Standard is in the process of being finalised. We found that there is a need for greater awareness of the standard amongst staff across TfL and improved IM processes to support the standard.

10 Crossrail

10.1 We issued 11 audit reports and 7 memorandums in respect of Crossrail during the year. Of the audit reports, four were concluded as 'requires improvement', five were 'adequately controlled' and two were 'well controlled'. The results of work in Crossrail are also reported to the Crossrail Audit Committee.

10.2 The audits concluded as 'requires improvement' were as follows. In all cases, we have subsequently carried out a follow up review and confirmed that all agreed actions have been addressed.

(a) Our audit of the administration and management of Project Bank Accounts identified two significant issues, including an absence of signed Trust Deeds for two contracts, and a lack of a documented procedure for the administration of these accounts.

(b) A Technical Assurance audit reviewed the management, communication and reporting of technical assurance within Crossrail. The audit found that the Technical Directorate had made commendable progress in putting in place a framework for the delivery of technical assurance in Crossrail to satisfy the requirements of the Project Delivery Agreement. However, two issues were identified from the audit where there was an opportunity

to improve the efficiency and effectiveness of the technical assurance process.

(c) A joint audit was conducted with the Crossrail Compliance Audit team in relation to the management of the Construction Design and Management (CDM) Procedure and compliance to Construction (Design and Management) Regulations 2007. The audit found that the application and understanding of the local procedure and the regulations were generally very good although there were teams that had yet to implement the procedure appropriately and therefore were unable to demonstrate compliance. Two issues were raised in relation to storage and management of CDM data and documentation, and compliance with the procedure within specific areas and the application of control points and checklists.

(d) Our audit on Crossrail Corporate Governance reviewed the adequacy of internal governance arrangements following changes implemented during 2010. Membership of the Board and its committees was found to be appropriate and in accordance with the Principal Project Documents and best practice. One significant issue was raised in relation to governance over policies.

10.3 During the year we carried out two proactive 'fraud audits' whereby we carried out data analytical testing in order to seek to identify evidence of fraud or irregularity in the areas under review. The two audits carried out covered purchases under £10,000, which are subject to less stringent controls than higher valued purchases, and staff remuneration. Neither audit found any evidence of any fraudulent activity. We plan to carry out further such audits in other areas during 2012/13.

11 London Transport Museum (LTM)

11.1 We carried out a programme of audits at LTM, the results of which are also reported to the Museum's Audit Committee. Four interim audit reports were issued during the year, covering IT Governance; Asset Management; Skills and Knowledge Maintenance and Management Information. All four audits were concluded as 'requires improvement'.

CFF sent (period 1 – 13): 82   **2010/2011: 113**

CFF returned (period 1 – 13): 39   **2010/2011: 78**

Customer Feedback Form – Summary Of Responses For 2011/12

Understanding our customers' needs and expectations and ensuring we are meeting them, is an important part of the continuous improvement we strive for in Internal Audit. We have recently worked with you on an audit project and would be grateful if you would take a few moments to give us feedback on our performance – after all, we have just given you feedback on yours!

Scale (please tick one):
1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 = Strongly disagree

	Question	1	2	3	4	No mark given
1	**Communication prior to the audit work was appropriate and I was aware of visit dates and objectives before the work started**	**18** (36)	**19** (38)	**0** (3)	**0** (1)	**2** (0)
2	**Throughout the audit process I was kept informed of the work being done and issues arising**	**15** (27)	**20** (41)	**2** (9)	**0** (1)	**2** (0)
3	**Internal audit staff demonstrated a good understanding of the business and associated risks (or took the time to develop such understanding during the audit process)**	**16** (22)	**20** (45)	**2** (9)	**0** (2)	**1** (0)
4	**Internal audit staff demonstrated a pragmatic and commercial approach to developing solutions to issues identified during the audit**	**16** (21)	**19** (45)	**3** (12)	**0** (0)	**1** (0)
5	**The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses**	**17** (27)	**17** (35)	**5** (15)	**0** (1)	**0** (0)
6	**Internal audit staff acted in a professional manner throughout the assignment**	**22** (41)	**17** (34)	**0** (3)	**0** (0)	**0** (0)

7. What did we do best?

"Learned quickly and did not place significant additional burden upon working staff. Always provided agreeable meeting times/dates and understood the goals of the audit from the business side as well as that of TfL audit."

"The audit staff embraced both the philosophy and rationale behind the methodology and rather than judge it against conventional contract management gained assurance that the interests of TfL were protected."

"Understood that certain processes were undertaken because of the nature of the industry."

"Work with all parties to propose practical solutions to highlight security risks."

"The use of other sources and activities undertaken, which covered the current audit objectives, and hence prevent duplication of effort was very well done and should be applauded."

"The audit report was well written and came out with good observations and recommendations. The staff were professional and demonstrated an excellent understanding of the issues."

8. What could we have done better?

"In our opinion, the audit took longer than was needed."

"Accepted that the issues raised were not significant – it is surprising that there is no definition that sets out the difference between significant issue and secondary issue."

"During the course of an audit a certain amount of time is diverted from our business as usual activities, which can hinder ongoing business plans, especially during busy times. This situation isn't likely to change but we would like to continue to work together to improve it on future audit projects."

"Pre-planning. The scope of the audit was defined before a full understanding of the subject matter was gained which meant audit staff were always playing catch up..."

"Audit timelines often slip but the revised timescale is not widely communicated – suggestion would be short note to principal auditee and key stakeholders each week setting out what work has been undertaken, which aspects are not on plan and any changes to the expected completion date for the audit ..."

"The internal report classifications: *Having read the report and discussed with audit team overall the report is very positive. The classification "Requires Improvement" gives the impression that there is something significantly wrong rather than dealing with the issues and subject to continuous improvement."*