

Date: 14 June 2016

Item: Controls - Development and Implementation Programme

This paper will be considered in public.

1 Summary

- 1.1 This paper aims to provide an update on a programme of work to review core financial processes and their supporting controls; to make recommendations for their improvement; and to embed those controls into a formal Risk and Control Framework. Updated flow charts and controls documentation will then be maintained by the relevant TfL business area and the completion of the recommendations will become the responsibility of each area of the TfL business. An investment of £2.2m has been approved, and a programme of work commenced, with a view to conclude in the middle of 2017/18.

2 Recommendation

- 2.1 **That the Committee notes the paper.**

3 Background and Building a Better Finance

- 3.1 In the summer of 2014, the then Managing Director, Finance commissioned the Building a Better Finance (BBF) project which was designed to drive improvement in four core areas of focus within the Finance function:
- (a) Performance Cycle, with an emphasis on the management reporting cycle;
 - (b) Enablers, predominantly meaning the technology underpinning our finance processes;
 - (c) People, Organisation and Culture; and
 - (d) Controls.
- 3.2 In the first phase of the BBF programme, the Controls workstream undertook a pilot programme on TfL controls to demonstrate that there was value in developing a comprehensive TfL controls framework. The processes for three areas were examined and recommendations for improvement made: London Underground Fares to Cash; Purchase to Pay, covering the sourcing of vendor work through to the settlement of the resultant invoice; and Congestion Charging.
- 3.3 The findings of the pilot work are compelling and this work has been built upon to develop a framework to improve the controls environment within TfL.
- 3.4 It is difficult to estimate the value of any financial losses which have arisen from the identified control failures in the past or which might arise in the future if controls weaknesses are not addressed. The reduction of the risk of financial loss or the elimination of financial loss through either prevention or recovery would usually form the basis of a commercial business case to support an investment in

the improvement of controls across TfL, but sufficient instances have been identified to conclude that investment will be worthwhile.

- 3.5 Earlier this year it was decided that the Controls workstream should be carved out from the BBF programme to be executed as a separate initiative, reflecting its scale and duration beyond the end of the BBF programme.

4 Subsequent Events

Fraud Investigation and Technology

- 4.1 During Quarter 4 of 2015, the FSC was able to derive particular value from the in-built software within the SAP Enterprise Resource Planning system. In particular, the Governance Risk and Compliance (GRC) software built into SAP proved central to being able to provide comfort and assurance over the segregation of duties and other risk factors associated with the potentially fraudulent transactions. Currently, the GRC software only utilises one of four available modules: the Access Controls module defines levels of access to the SAP system and permissions, and enforces effective segregation of duties.
- 4.2 The existing implementation of the implementation of the Access Controls module will shortly be out of technical SAP support, and an upgraded solution will operate over both standard and bespoke SAP transactions.
- 4.3 Other unutilised modules within the GRC software, are also thought to have considerable potential value in an updated controls model. The Process Controls module can be linked to each identified control, and gives the SAP system the ability to both enforce the performance of that control and provide reporting on which control steps have been completed in the performance of a process and which remain incomplete. The Continuous Monitoring module gives the FSC the ability in real or near-time to test all of the transactions processed in the SAP system to detect a range of user-defined and pre-determined characteristics or risks and thereby provide enhanced business partnering and greater assurance over potentially suspicious patterns of transactional behaviour.

Fraud Investigation and CPAF Process

- 4.4 The Controls team have also examined the Contractor Payment Approval Form (CPAF) process which is the process which lies at the heart of a recently uncovered fraud. A CPAF transaction triggers a payment to a contractor as part of a larger transaction or under larger purchase order cover. Values tend to be large and typically support fixed asset investment projects. Currently, all of the CPAF authorisation is performed manually and the calculations, administration and approvals performed outside the SAP system. Compliance across the operations community in providing documentation to support a CPAF transaction is poor. There are over 20 individual processes in operation across the business to support CPAF triggers, and standards of quality and compliance vary.
- 4.5 The Controls workstream has concluded that the standard of control over business processes was improved when the controls operated within SAP and could be tested and validated by the system. Their recommendation – consistent with the findings of Internal Audit – was that the approval of CPAF triggers should

be formalised within changes being implemented to SAP via the upcoming implementation of the Vendor Invoice Management (VIM) module, due to be implemented in September 2016. In this way, the same high levels of comfort and assurance provided by the GRC software in the course of investigating potentially fraudulent transactions (see 4.1 above) could be extended to CPAF transactions in the future.

5 Controls

Summary Approach

- 5.1 Under the sponsorship of the Head of the Financial Services Centre, a £2.2m investment was sought to complete a full programme of work to generate process and controls mapping of all of TfL's end-to-end business processes.
- 5.2 The deliverables of the programme are:
- (a) validated process maps and controls mapping for all end-to-end processes within the TfL business;
 - (b) a consolidated risk and control framework, consolidating the output in (a) and linking to a revised and more comprehensive governance framework and disclosure;
 - (c) enhanced GRC technology capability and a more comprehensive approach to testing risk and control;
 - (d) a steady-state, permanent TfL team of 6 heads who will maintain the risk and controls framework and perform testing of the controls and the SAP transaction data; and
 - (e) a comprehensive review and re-drafting of key expense policies.
- 5.3 A formal governance structure will be designed to both deliver the initial programme of work and then enforce the maintenance of the risk framework. Progress on the delivery of the programme will be formally reported on a periodic basis to the CFO and the Finance Leadership Team.

SAP GRC Technology

- 5.4 Business cases proposing investment from the SAP Core Fund maintained by IM for upgrade and maintenance of the SAP system were developed by the Controls team to upgrade the standard of detailed monitoring of financial transactions. It was proposed that TfL invest in an upgrade of Access Control; the Process Control module; and the Continuous Monitoring module.
- 5.5 The IM team delivering the VIM automation project into SAP was already forecasting to be a year late on their original delivery deadline. As a result, FSC staff and the Controls team worked quickly with the IM project team to build in a modification to the VIM software that would bring the current manual authorisation controls into SAP, so that the efficacy of those controls could be monitored and enforced by GRC. The resultant solution is still currently on track to be delivered in September 2016.

Current Status

- 5.6 The core of the original PwC Controls team which completed the BBF Pilot work has been retained to provide a core effort aimed at kick-starting the new Controls programme. At the same time, recruitment of a team of six permanent controls specialists has commenced. These heads will assist with the completion of the initial programme of work and then the maintenance of the TfL controls framework and performance of GRC testing in final-state.
- 5.7 An upgrade of the Access Controls module within the GRC software has been commissioned and is currently on target to complete in September 2016.
- 5.8 A project to commission both the Process Controls and Continuous Monitoring modules within the GRC software has been approved and will deliver the completed modules for configuration in September 2017, to coincide with the completion of the process and controls validation work. Discussions are already complete to ensure that there is an understanding between the PwC process specialists and the TfL software specialists of each other's responsibilities to ensure that the configuration of the tools is performed as efficiently as possible.

6 Conclusion

- 6.1 The approval of the incremental £2.2m investment in controls improvement commences a programme of work which will conclude in 2017/18. The permanent framework which results, however, will lead to improved safeguarding of TfL assets for much longer, and will prevent potential losses several times larger than the total investment. External benchmarking provided by PwC, our implementation partner, demonstrates that the proposed TfL solution is best-in-class. Progress updates can be provided to the Committee on request.

List of appendices to this report:

None.

List of Background Papers:

None.

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