

**Date:** 13 July 2017

**Item:** Internal Audit Annual Report 2016/17

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## **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 2017, to account for the use of resources and provide an opinion on the internal controls as required by the Public Sector Internal Audit Standards.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the 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) Project reviews carried out as part of the Integrated Assurance Review Process (including the work of the Independent Investment Programme Advisory Group);
- (b) the work of other management assurance teams;
- (c) a review of outcomes from the Control Self Assurance process; and
- (d) the Health, Safety and Environment (HSE) management system maturity review.

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

- 3.2 Internal Audit's work has been carried out in accordance with Public Sector Internal Audit Standards.
- 3.3 There have been no matters arising from any of the work we have completed that need to be brought to the attention of the Audit and Assurance Committee.
- 3.4 There have been no restrictions imposed on the scope of the internal audit function.

3.5 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 Integrated Assurance 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 generally changes significantly 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, although we have a view as to the work we aim to complete during the next twelve months.

4.3 A number of audits in the 2016/17 Audit Plan were still in progress at 31 March 2017. We also completed some audits carried forward from the 2015/16 Audit Plan during the year. The number of Interim Audit Reports, other outputs, including advisory reports and memorandums, and HSE and Technical reports issued during the year and in 2015/16 are set out in the table below.

	Interim Audit Reports					HSE and Technical (HSE&T) Audit Reports*					Other Outputs (Advisory Reports/ Memos)	Total
	WC	AC	RI	PC	Total	WC	AC	RI	PC	Total		
2016/17	12	18	27	3	60	13	91	39	2	145*	38	243
2015/16	16	13	30	4	63	2	34	30	1	67	33	163

\* - The HSE&T report numbers include, for the first time, reports (58 in the full year) issued by the Crossrail audit team who transferred into TfL Internal Audit in March 2016. The numbers are not, therefore, directly comparable with the prior year.

4.4 The numbers of interim audit reports and advisory reports/ memos issued during the year are similar to 2015/16. For the HSE&T reports, after adjusting for the Crossrail reports not included in the previous year, there has been an increase in the number

of reports issued from 67 to 87. This is because the number of reports issued during 2015/16 was unusually low due to a decision in the 2015/16 plan to carry out a smaller number of more in-depth and wide ranging audits. The number and size of the audits carried out in 2016/17 have returned to the more usual level.

- 4.5 The spread of conclusions for the Interim Audit Reports issued is similar to that in 2015/16. 50 per cent of the reports were concluded as 'requires improvement' or 'poorly controlled', compared to 54 per cent in the previous year. There were three reports issued with a 'poorly controlled' conclusion, compared with four in 2016/17.
- 4.6 Two of the three 'poorly controlled' reports issued related to audits of information technology: IBM Software Licensing and Active Directory. A common theme in both of these audits was a lack of clear pan-TfL ownership and strategic direction of key processes. We believe that the ongoing Technology and Data transformation programme is an important step forward in establishing effective control in these areas. The other 'poorly controlled' report related to security at Victoria Coach Station.
- 4.7 The HSE&T reports show a substantial reduction in the proportion of 'requires improvement' or 'poorly controlled' reports, just 28 per cent compared to 46 per cent in 2015/16. This is somewhat skewed by the inclusion in 2016/17 of the Crossrail reports. Only 10 out of 58 of these (17 per cent) were concluded as 'requires improvement' with the remainder being 'adequately controlled' or 'well controlled'. However, even if the Crossrail reports are excluded, the proportion of requires improvement and poorly controlled reports, at 36 per cent, is lower than in 2015/16. We have been unable to identify any underlying reason for this, and it is likely that it simply reflects the mix of areas audited this year. Two HSE&T reports, on Track Alumino-Thermic Welding in Maintenance Infrastructure Services (MIS) and Management of Display Screen Equipment, were concluded as 'poorly controlled'.
- 4.8 A more detailed summary of audit work carried out during the year can be found in Appendix 1.
- 4.9 We follow up all agreed management actions from audits to confirm that they have been implemented. With regard to interim audit reports it has been our practice to issue a subsequent final audit report setting out the results of the follow up review. 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 61 final audit reports issued (2015/16: 64), there were only two that we were not able to close as a result of actions being incomplete. These were the audits of Payroll; and New Income Generation in the London Transport Museum (LTM). The first of these has subsequently been closed. For the second, the remaining actions are now due to be completed by 31 July 2017, and we will follow them up as they fall due to ensure they have been addressed.

## **Other Work**

4.10 In addition to the planned audit work above, we have also continued to be involved in a range of steering groups and other governance bodies, and have been represented on the following during the year:

- (a) Assurance Delivery Group;
- (b) Technology and Data Group;
- (c) Community of Interest for Cyber Security;
- (d) GRC Governance Council;
- (e) Resilience Steering Team;
- (f) The International Quarter, Stratford (TIQ) Project Board;
- (g) Crossrail Integrated Assurance Group;
- (h) Crossrail Fraud Risk Assurance Group; and
- (i) Right Financial Solution Steering Group.

4.11 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**

4.12 Throughout the year, we have received regular updates on the work of the project assurance team delivered through the Integrated Assurance Review (IAR) 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 and Assurance Committee, and it has been taken account of in arriving at the overall conclusion on the effectiveness of TfL's control environment.

4.13 In Crossrail, there is a range of other assurance activity that we take into account in arriving at an overall opinion on control effectiveness in Crossrail, as follows:

- (a) Contractor HSE audits, managed by the Crossrail Head of Safety, with oversight by the Senior Audit Manager – Crossrail, providing assurance across a range of contracts and themes that contractors have effective HSE systems in place;
- (b) A Contractor Commercial Review function providing assurance over the commercial performance of contractors, covering cost; contract management; risk management; commercial value; supply chain and procurement; and anticipated final cost management and controls; and

(c) External Lloyds Register Quality Assurance (LRQA) review of the Crossrail Management System.

4.14 The outcomes from this work are reported quarterly to the Crossrail Audit Committee, and summarised for the Audit and Assurance Committee as part of the Internal Audit quarterly reports. There are no significant issues that need to be brought to the Committee's attention.

### **Control Self Assurance (CSA)**

4.15 CSA is a process that enables management to assure themselves that key controls are operating effectively. The CSA returns are reviewed by Internal Audit 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.

4.16 The CSA process is managed by the Controls Team within the Financial Services Centre (FSC). In future years a new SAP Governance, Risk and Compliance Process Controls Tool will facilitate the annual self-assessment process. The tool will provide each control owner in the system with an annual questionnaire in order to understand the current status of controls, flag potential changes or failures and ensure accountability. The Controls Team in liaison with Internal Audit are currently mapping risks and controls in systems across the business for eventual upload into the new tool.

### **HSE Management System Maturity Review**

4.17 For a number of years, and separate to the CSA process, TfL operated a process of annual assurance letters for HSE and Resilience, whereby senior executives confirmed that their business areas were in compliance with key requirements.

4.18 With effect from 2016/17 the assurance letters process has been discontinued. TfL is taking forward a programme of continuous improvement, measuring the effectiveness of the TfL HSE Management system against the Office of Rail and Road's (ORR's) maturity model. TfL has assessed its current level of maturity at 3 (out of 5), and this has been confirmed by the ORR. The TfL Commissioner has set the challenge to achieve 'Excellence' in the Safety Management System, with the first step being to reach maturity level 4. A paper was presented to the Safety, Sustainability and Human Resources Panel in March setting out TfL's approach to achieving that.

### **Fraud Prevention, Detection and Investigation**

4.19 As part of our fraud prevention strategy 40 awareness sessions were delivered to a total of 480 attendees over the course of the year. These sessions included 25 to TfL and Crossrail employees and 13 delivered to Crossrail Tier 2 contractors.

4.20 Work has continued on promoting the online Fraud Awareness Course available on Ezone, with over 1,200 staff now having completed the course. A number of business areas have mandated completion of the course for their staff, particularly Station Works and Improvements Programme (SWIP), where 98 per cent of staff have completed the course; General Counsel (86 per cent completed); and Commercial Development (60 per cent completed). Most recently Finance (including Commercial) and HR have mandated all staff to complete the course by 31 August 2017. We will encourage further areas of the business to take up of the course.

4.21 We have continued to promote the work of the Fraud Team, including highlighting successful prosecutions following fraud investigations, through the use of the TfL intranet, 'Source', and weekly newsletters. Information published has also included alerts and information on current scams. In May 2016 an article appeared in LU's On The Move magazine 'Are you fraud aware?' and in February 2017 a 'Meet the Fraud Team' article appeared in Surface Transport's UpFront magazine.

4.22 The Fraud Team continue to work with other organisations to ensure that TfL is at the leading edge with regards to fraud prevention, detection and investigation. This includes membership of fraud network groups such as the London Fraud Forum and the Fraud Advisory Panel as well as continued close liaison with Action Fraud, the National Fraud Intelligence Bureau and the Metropolitan Police initiative, FALCON (Fraud and Linked Crime Online).

4.23 There were 28 new investigations during 2016/17, and 27 cases brought forward from 2015/16. There was a significant increase in the number of investigations concerning the use of compromised credit and debit cards to top up Oyster cards.

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 2016		<b>27 (34)</b>
New since 1 April 2016		<b>28 (43)</b>
Closed since 1 April 2016	No Crime/ Offence established	<b>13 (23)</b>
	Disciplinary Action Taken	<b>4 (4)</b>
	Police/ Judicial Action Taken	<b>16 (23)</b>
	Sub Total	<b>33 (50)</b>
In Progress at 31 March 2017		<b>22 (27)</b>

4.25 The number of closed cases during the year that led to police/ judicial action demonstrates the Fraud Team continues to compile quality evidence to support the cases.

4.26 The 28 (43) new investigations consist of 25 (42) fraud cases and 3 (1) reports of theft.

4.27 Reports were received from the following sources:

<b>Source</b>	<b>2016/17</b>	<b>2015/16</b>
Internal Audit	1	1
Internal Control	6	6
Staff Member	15	23
Member of Public	5	4
Law Enforcement Agency	1	5
Anonymous	0	3
National Fraud Initiative	0	1
<b>Totals</b>	<b>28</b>	<b>43</b>

## **5 Corporate Assurance Transformation**

- 5.1 In September 2016 we began work on a Corporate Assurance Transformation workstream as part of TfL's wider Transformation Programme. The objective of the workstream is to bring together Internal Audit, Project Assurance, Risk and Fraud Management activities into a single Risk and Assurance professional service within General Counsel. Proposals for the new function have been developed by a team led by the Director of Internal Audit with membership from the business areas affected, and supported by relevant corporate functions including Finance, HR, Legal, Communications and the Central Transformation team. The proposed design of the new function has been informed by research with professional bodies, benchmarking with similar organisations, market testing and TfL staff engagement workshops.
- 5.2 Our proposals for the new function were presented to and approved by the TfL Executive Committee in early May 2017. The proposals were then presented to staff and Trade Unions on 15 May 2017, initiating a consultation period that will last a minimum of three months.
- 5.3 The expected benefits from the transformation include:
- (a) improved efficiency and visibility of information;
  - (b) better support for TfL's decision making processes;
  - (c) centralised standards, processes, systems and tools to provide a more efficient and effective service;
  - (d) audit and assurance to be better co-ordinated with strategic risk, with single points of contact; and
  - (e) integrated planning and reporting on TfL's strategic risk, assurance, audit and fraud management activities.

5.4 Key elements of the proposed new professional service include the following:

- (a) The risk function, led by a Head of Risk, will set the set the risk framework, strategy and processes to be followed across TfL. A Senior Risk Manager will manage the ongoing development of TfL's strategic risk management processes and regular engagement with and reporting to the TfL Executive Committee, the Audit and Assurance Committee and the Board. Risk Managers embedded in the operating businesses will interface with local management to ensure that operational risks are being managed effectively and escalated as appropriate, and that there are clear links between local and strategic risks.
- (b) There will be a clear distinction between the second and third lines of assurance. Internal Audit (third line), led by a Head of Internal Audit, will be independent, and strategically focused, with its work closely aligned to the TfL strategic risks and driven by the requirements of the Audit and Assurance Committee and the TfL Executive Committee.
- (c) The Project Assurance team (second line), led by the Head of Project Assurance, will continue to carry out reviews to support financial decision making at key gate stages of major projects. They will also manage the day to day relationship with IIPAG, which provides third line assurance in relation to delivery of the Investment Programme.
- (d) The other second line assurance activities will be managed by a Head of Integrated Assurance. This will include managing a programme of audits of compliance with HSE and Technical standards, which will be agreed in liaison with management and driven by the needs of the operating businesses. The Head of Integrated Assurance will also interface with other second line assurance functions within the business and will lead the development of assurance mapping so that there is clarity over the assurance lines of defence for all key business activities.
- (e) The Fraud Team, led by the Senior Fraud Manager will continue to carry out Fraud awareness, prevention and detection and investigation activities.

5.5 It is proposed that the new professional service will deliver savings of 20 per cent by reference to the 2015/16 baseline. This is primarily through reductions in headcount, although the Project Assurance team has already delivered savings over the past 18 months through reductions in spend on external experts. The impact on output of this reduction in headcount will be mitigated by better targeting of assurance work; improved efficiency through integrated and standardised systems and processes; and improved coordination of assurance activities to minimise duplication and overlap.

5.6 Once the transformation process has been completed we will review and refocus the assurance plan approved by the Committee in March to ensure it is deliverable and



aligned to the new structure. The revised plan will be submitted to the Committee for approval.

## **6 Resources**

### **Staff**

- 6.1 At the start of the financial year, the department had two audit managers and one internal auditor vacancy against its budgeted headcount of 65. A further four auditors and one audit manager have left the department during 2016/17. In addition, one of the Fraud Investigators retired just after the year end.
- 6.2 In light of the headcount controls that TfL has had in place for much of the year, and the knowledge that we would shortly be initiating our Transformation programme, we have not filled any of the vacancies that have arisen. Consequently, the department has operated at below budgeted headcount throughout the year. We have mitigated this where possible by reallocating staff between teams.

### **Staff training and Development**

- 6.3 We have in place documented guidance setting 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. It has been our practice to require joiners into audit positions who do not have previous audit experience to complete the IIA's Certificate of Internal Audit during their first year in the department. However, we have had no joiners during the year.
- 6.4 Individual training and development plans are agreed for members of staff through the performance management process and monitored to ensure these are achieved. TfL restrictions on external training have meant there has been a greater emphasis on use of internal courses (typically for softer skills training) and other, non-course, forms of development. We have continued to make use of free courses where possible.

### **Co-Sourcing**

- 6.5 A GLA-wide contract for Specialist Internal Audit Services with RSM Risk Assurance Services is in place that we could use to help us resource our audit work if required. However, we have not made use of the contract during the year.

## **7 Internal Audit Processes**

- 7.1 In accordance with Public Sector Internal Audit Standards we have 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 generally 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.

- 7.2 During the year we commissioned the Chartered Institute of Internal Audit (IA) to carry out an external quality assessment of the function. The previous external assessment was carried out in late 2012.
- 7.3 The IIA's report setting out the findings from their review was published on 29 March 2017, and can be found elsewhere on this agenda. The report concludes that Internal Audit generally conforms to the IIA's professional standards, with just three out of 56 areas where there is only partially compliance. The report makes recommendations to achieve full compliance and includes some further recommendations to improve the overall effectiveness of the function.
- 7.4 We have accepted the recommendations that have been made and our responses have been incorporated into the report. The majority of the recommendations will be addressed through the Corporate Assurance Transformation (see section 5 above).
- 7.5 We seek to continuously review and enhance our audit processes, documented in our Audit Manual, to ensure they are best practice and meet the needs of the business. The most recent update of the Audit Manual was published on 2 May 2017.

## **8 Networking**

- 8.1 To ensure that TfL's Internal Audit department remains up to date and understands best practice, it is important that we engage 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 London Audit Group; the IIA Guidance and Editorial Committee; the Information Systems, Audit and Controls Association (ISACA); the Association for Project Management (APM) (including membership of the APM's Board, Audit Committee, and Specific Interest Group on Assurance); the Institute of Risk Management; the Institute of Occupational Safety and Health; the Security Institute; the London Fraud Forum; the CIPFA Counter Fraud Centre; the London Committee of Crimestoppers; and the Fraud Advisory Panel.

## **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 list of the questions, including a detailed analysis of the results, is included in Appendix 2.

- 9.2 The return rate for feedback forms in 2016/17 was 53 per cent, a pleasing increase over the 40 per cent achieved in 2015/16 and the 42 per cent achieved in 2014/15. The improved response rate is the result of us sending a second reminder to customers who have not replied. Previously we only sent one reminder. The summary of scores received in the year, and in previous years, is as follows:

	Very good %	Good %	Satisfactory %	Poor %	Very poor %
2016/17	45	39	14	2	0
2015/16	46	36	12	5	1
2014/15	53	33	13	1	0
2013/14	34	44	16	6	0

- 9.3 The majority of respondents continue to be satisfied with the way we carry out our work, and there has been a reduction in the proportion of 'poor' and 'very poor' scores compared to 2015/16. 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 and Other Assurance Work 2016/17

Appendix 2 – Customer Feedback Form – Summary of Responses for 2016/17

#### **List of Background Papers:**

Audit reports.

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## TRANSPORT FOR LONDON

**AUDIT AND ASSURANCE COMMITTEE  
OVERVIEW OF INTERNAL AUDIT AND  
OTHER ASSURANCE WORK - 2016/17****1 Background**

- 1.1 The following paragraphs set out our work done against a number of key strategic themes. Where appropriate these have been linked to the current relevant TfL Strategic Risks, although it should be noted that these risks had not been defined at the time the 2016/17 Integrated Assurance Plan was agreed.

**2 Safety of Operations**

- 2.1 We carried out 31 audits related to the management of HSE in 2016/17. One was concluded as 'well controlled', 17 were 'adequately controlled', 12 were 'requires improvement' and one 'poorly controlled'. Compared with the previous year there were five more audits: four more 'adequately controlled' and one more 'poorly controlled' conclusions. This work provides assurance in relation to SR1: Safety Standards
- 2.2 The 'poorly controlled' conclusion relates to an audit of the management of Display Screen Equipment (DSE), which found that TfL could not demonstrate effective management of risk from DSE in office areas as required by the DSE Regulations. The business is currently working to address the ineffective parts of the system and a follow-up audit is included in the 2017/18 Integrated Assurance Plan.
- 2.3 Audits were also conducted to address significant changes to LU operations, for example, the management of noise complaints ahead of the launch of 'Night Tube' and the management of HSE activities in stations following the 'Fit for the Future – Stations' reorganisation. The first identified that there was no end-to-end process for managing noise complaints. This has since been addressed and a follow up audit will be completed in 2017. The management of HSE activities in stations following the 'Fit for the Future – Stations' was concluded to be 'Adequately Controlled'.
- 2.4 Surface Transport conducted an internal assessment of safety management system maturity that was benchmarked to external standards. The HSE&T team provided independent verification that self-scoring by management teams was accurate and consistent across directorates.

- 2.5 We continued our rolling programme of audits to provide assurance that business units with significant HSE risk are managing these risks in compliance with legislation and the HSE Management System. The majority of the audits are in LU. One trend identified from these audits and those of the previous years is that LU Operations appears to manage HSE risk more effectively than the maintenance teams. This may be related to organisational history, and the different approaches to HSE management and culture of the PPP suppliers. The management system requirements concerning risk assessment, management of fatigue and age medicals are often misunderstood and the associated controls implemented are therefore incomplete. A specific audit of fatigue management is planned for 2017/18.
- 2.6 We carried out a pan TfL audit of the management of occupational noise, which was given a 'Requires Improvement' conclusion. Key findings concerned the identification of when a full noise risk assessment is required and knowledge of the techniques to ensure the legal requirements are met.
- 2.7 A pan-TfL audit was undertaken of the management of Construction (Design and Management) (CDM) duties following a significant change in legislation. The audit was concluded as 'Requires Improvement' and, in response, TfL has developed and is soon to publish revised management system documents.
- 2.8 A number of audits of physical security carried out by our IM and Security team also provide assurance in this area.
- 2.9 One of these audits, of Victoria Coach Station security, was concluded as 'poorly controlled' and highlighted a number of physical access control weaknesses. Since the audit, management has implemented a number of controls to mitigate the risks identified.
- 2.10 An audit of LU Station Security found that adequate governance arrangements were in place and effective security measures had been implemented. Findings raised by a previous DfT review had all been actioned in a timely manner. However, site visits did identify instances where the approach to security fell below expectations, and the report was concluded as 'requires improvement'.
- 2.11 We also carried out a consultancy style review of TfL's approach to Personnel Security and Security Culture. We identified some areas of good practice, but also highlighted through our eight recommendations, the need for a holistic approach to personnel security policy, processes and controls in order to drive cultural change. Our recommendations will be incorporated into a security strategy that is being developed by the Managing Director, Surface Transport, who has recently taken on responsibility for security pan-TfL (non-operational and excluding cyber security).

### **3 Revenue**

- 3.1 Work under this heading relates to controls over ticket revenue and the activities of the Commercial Development directorate. The work done provides assurance in relation to risks SR7: Financial Sustainability; and SR8: Delivery of Commercial Revenue Targets.
- 3.2 We carried out an audit of fare refunds and goodwill payments and identified a number of areas where controls could be strengthened including approval of refunds claimed for service delay and customer claims for consequential losses due to delays. The audit was concluded as 'requires improvement'.
- 3.3 We also audited the processes in place for administering concessionary travel schemes and collecting Freedom Pass settlement payments. We concluded that this area was adequately controlled.
- 3.4 We carried out nine audits in respect of Commercial Development during the year. Four of these were concluded as 'requires improvement', one was 'adequately controlled' and one was 'well controlled'. Three were advisory type reviews for which the output was an audit memorandum.
- 3.5 The four audit reports (three of which were issued just after the year end) concluded as 'requires improvement' were as follows:
  - Phoenix Property Payments Process – this system for processing of compulsory purchase and other property compensation payments was generally working well, but the audit identified a risk of advance compensation payments not being made within the statutory deadline.
  - Procurement and Management of Professional Advisers – the audit identified a number of issues in relation to the need for improved documentation and transparency of processes for appointing professional advisers.
  - Management of the Property Partnerships Programme – the audit found several areas of good practice, but also identified a need for an Investment Strategy to set out the decision-making criteria and demonstrate there is a consistent and justifiable approach to site selection and prioritisation.
  - Investment Appraisal – the audit highlighted a number of areas where the controls over investment appraisal could be better defined and more transparent.
- 3.6 We carried out an advisory review of the ongoing development of financial controls and processes in Commercial Development. The review noted weaknesses around documented procedures, assignment of roles and responsibilities, communication of delegated authority, risk management, reconciling balances and lack of fraud awareness. Commercial Development is making steady progress towards addressing these control weaknesses.

- 3.7 We have been supporting the Commercial Development team with a series of fraud risk awareness communications and workshops. Commercial Development staff have also been mandated to complete the online Fraud Awareness course and to date approximately 60% have done so. This engagement will continue during 2017/18.
- 3.8 Overall, Commercial Development is a business area that has had a higher than average proportion of audits concluded as 'requires improvement'. This reflects the fact that it is still a relatively new business area that is working to establish and document processes, controls and ways of working.

#### **4 Management of assets**

- 4.1 We carried out 60 audits related to the management of assets in 2016/17. This resulted in three 'Well Controlled', 37 'Adequately Controlled', 18 'Requires Improvement' and two 'Poorly Controlled' audit conclusions. Overall the audits in this area show better performance than in previous years, with a higher proportion of 'Well Controlled' and 'Adequately Controlled' audit conclusions. These audits provide assurance over risk SR14: Managing Railway or Strategic Road Network Asset Base, but also contribute to providing assurance over SR1: Safety Standards.
- 4.2 The two audits with 'Poorly Controlled' conclusions were 'Track Alumino-Thermic Welding in MIS' and 'Earth Structures Inspections'. A follow up audit on Track Alumino-Thermic Welding has now been completed and confirmed that action had been implemented to address the previously poor inspection regime and record keeping and was given an 'Adequately Controlled' conclusion. The Earth Structures Inspections audit, the report for which was issued just after the year end, raised concerns about the resourcing of the programmes of work and the completion of inspections.
- 4.3 The audits undertaken focused on asset areas which can impact on service reliability or operational incidents that may have a service or safety impact. The programme of audits covered business as usual maintenance activities in addition to asset upgrade and overhaul projects, and addressed a wide range of asset areas (track, signals, rolling stock, power, drainage, civils and premises) across the BCV, SSL and JNP teams. The majority of audits were conducted in LU where a significant proportion of asset maintenance work is completed by TfL employees. The audit programme was aligned to the LU 'Asset Risk Model' to ensure that the assurance work is proportionate to the business risk. The audits provided assurance that maintenance or assurance regimes are in place and that monitoring regimes provide feedback to the business that identify where management intervention is required.
- 4.4 Some common issues were noted in relation to the communication and awareness of requirements within standards, and the clarity of the requirements so that they are not vulnerable to interpretation. There were

also issues over the completeness of asset data, which is important to ensure effective maintenance of assets which may have changed following project or upgrade works; a specific audit on asset data is included in the 2017/18 Integrated Assurance Plan. Competence management was reviewed in a number of asset management audits; locally competence was seen to be managed effectively albeit not as part of an overall TfL system.

- 4.5 An audit of station electrical testing highlighted the difference in standards applied between the BCV/SSL and JNP teams and also the inconsistency in standards across geographic and asset boundaries.
- 4.6 At management request the HSE&T team has increased the number of audits undertaken in DLR, addressing a variety of asset management subjects against the DLR risk register. This includes asbestos management and adverse weather planning. Initial findings are that the correct activities are being undertaken, but there are opportunities to improve the communication of assurance between the contractor, Keolis Amey Docklands (KAD) and the TfL DLR team. Further work in DLR is planned for 2017/18.

## **5 Project Delivery**

- 5.1 The majority of the audits under this heading provide assurance against risk SR13: Delivery of Key Investment Programmes. Two main areas covered by this work are audits of procurement processes, often carried out on a 'real time' basis, and thematic audits of elements of the project management process. This avoids overlap with the work of the Project Assurance team, which carries out reviews of individual projects within the Investment Programme to inform decision making at key gate stages.
- 5.2 We issued 11 interim audit reports and 10 memorandums during 2016/17. Four of the reports had a 'requires improvement' conclusion, four were 'adequately controlled' and the remaining three were 'well controlled'.
- 5.3 Five of the memorandums related to real time audits of significant procurements, and capture our findings at key stages of the procurement process. This type of audit concludes with a full audit report, and accounts for all of the reports issued with a 'well controlled' conclusion, confirming TfL's generally effective controls over procurements.
- 5.4 The four audit reports concluded as 'requires improvement' were as follows:
  - A review of the use of single sourcing within the procurement process in London Rail, found some evidence of inappropriate use of single sources. This included instances where single source approval was granted by officers in excess of their delegated authority levels. This was particularly with regard to procurement of



contractors/ consultants, where individuals are engaged on repeated short term contracts, which are individually within authority levels, but not when considered in aggregate.

- An audit of Surface Transport gate and design reviews and their effectiveness in providing assurance over projects found variations in conduct and documentation, impacting on the degree of rigour and challenge to the projects. In addition, some projects were found to have progressed to the next stage before they were ready.
- An audit of the Flow-Down of Responsible Procurement (RP) Requirements Through the Supply Chain found issues related to access to support and guidance on RP throughout the commercial lifecycle and inconsistency in arrangements for monitoring compliance with RP themes.
- A real-time audit of the procurement of the Property Development Framework found a need for greater clarity and structure regarding strategies and decision-making for selecting and prioritising sites to be offered under the Framework and concerns that resources may not be sufficient to support the proposed programme

5.5 Audits of the Use of the Pathway Methodology in ST; the Purchase and Supply of the New Routemaster; Change control in Projects; and Procurement of a New E-tendering System were concluded as adequately controlled.

5.6 We also carried out a number of consultancy type assignments during the year, including the following:

- A review of Supplier Relationship Management within TfL found that the process was growing in maturity, but that there was a need to maintain momentum. We recommended the implementation of a planned delivery strategy, greater clarity of roles and responsibilities, and mechanisms for monitoring and reporting on benefits and progress.
- Our review of the use of the Commercial Toolkit by commercial teams across TfL found that there was good awareness of the Toolkit by commercial staff and there were effective arrangements for keeping it updated. However, the non-mandated nature of the toolkit meant that it was being used inconsistently. We also highlighted some areas where the Toolkit could be improved.

## **6 Technology and cyber security**

6.1 The work in this section provides assurance over risk SR12: Significant Technology Failure or Cyber Attack. In 2016/ 17, we issued eleven reports and four memorandums related to different aspects of technology and security assurance. Two of the reports were concluded as 'poorly controlled' and four (including one LTM audit) were concluded as 'requires improvement'. The remaining reports were either 'adequately controlled' or well controlled'.

6.2 The two audits that were concluded as 'poorly controlled' were as follows:

- The audit of IBM Software Licensing identified ineffective software license management controls. Whilst some of the issues were specific to the software under review, the audit also identified a need for a more strategic approach to software management. Since the audit, Technology and Data has implemented tactical controls to reduce the risk, whilst the appropriate strategic controls are put in place.
- The audit of Active Directory, which is a directory service that manages access to hardware and software through the Windows networks, highlighted ineffective configuration management controls. Remediation actions to reduce the associated access control risks are being taken forward.

6.3 The audits concluded as requires improvement included the following. In all cases, actions are being taken to address the issues raised:

- Management of Non-Permanent Labour in IM – this audit, which took place early in the year, identified issues with the large numbers of NPL staff employed by IM and controls over them. However, this has now been addressed through the Technology and Data transformation programme;
- Quality and Timeliness of IM Project Delivery – the audit noted shortcomings in the change control process for the maintenance of project baseline dates that could lead to inaccuracies in reporting of the performance of project delivery;
- Enterprise Remote Access (ERA) Control (T-Snap) – issues were noted in respect of arrangements for monitoring potential remote access security events. One privileged ERA user account was also found to be misconfigured.

6.4 During the year we have continued our programme of work supporting TfL activities aimed at achieving compliance with the Payment Card Industry Data Security Standard (PCI DSS). Our accredited PCI DSS Internal Security Assessor has been working in alignment with the external Quality Standards Assessor (QSA) to ensure that areas currently non-compliant continue to make progress. A number of audits of the status of the various non-compliant areas were in progress at the year end.

6.5 We have also continued to work in partnership with the business on reviews of the security of LU SCADA (Supervisory Control and Data Acquisition) systems and their resilience against external cyber attacks, applying the Centre for Protection of National Infrastructure (CPNI) SCADA risk assessment tool. We issued a memorandum highlighting a number of overarching issues, backed up by more detailed reports of findings in each of the operational areas reviewed.

## **7 Core Financial Processes**

- 7.1 Work under this heading is aligned to Risk SR7: Financial Sustainability. We carried out a smaller volume of work than usual under this heading because two planned audits covering General Ledger controls and Fixed Asset accounting have been postponed to 2017/18. This was because the controls team in FSC has been carrying out a programme of work to review and document the controls over these processes, and it was sensible to delay the audits until this work has been done.
- 7.2 We carried out a review to provide assurance on the adequacy and effectiveness of financial controls in Taxi and Private Hire and the outsourced service provider NSL. There were a number of issues raised around debt recovery, disputed payments and duplicate payments. The audit was concluded as requires improvement.
- 7.3 An audit of VAT accounting controls was completed. The audit noted several areas of good practice, but also found that a number of recommendations made by Deloitte in a review of VAT in relation to Commercial Development activities had not been addressed. The audit was concluded as requires improvement.
- 7.4 We reviewed the adequacy and effectiveness of controls in place to manage Group Treasury activities. This area was well controlled.
- 7.5 We carried out an audit of the process and system for managing payments to NPL staff in Contact Centre Operations payments system. Significant weaknesses had been identified in a previous audit in this area in 2013 and in follow ups in 2014 and 2015. A new system has since been implemented to manage this process, and we were pleased to note that this is now well controlled.

## **8 Governance**

- 8.1 As usual, we carried out a number of audits during the year in relation to general areas of corporate governance. These provide assurance in relation to risk SR3: Governance Suitability.
- 8.2 We audited the compliance of TfL and its subsidiaries with the TfL Transparency Strategy and the requirements of the Local Government Transparency Code. This found a lot of good practice and noted that TfL has made significant efforts to go beyond the strict requirements of the Code, and publishes a broad and comprehensive range of data. However, issues with the completeness and accuracy of a small number of data sets meant that the audit was concluded as 'requires improvement'.
- 8.3 We also carried out an audit of Gifts and Hospitality. This found that the processes for recording and publishing gifts and hospitality of Board

Members and Chief Officers were well managed. However, there was scope to improve the consistency of processes for recording, approval and monitoring of gifts and hospitality in other areas of the business.

- 8.4 We carried out three pieces of work on controls over the management, and control of surveillance cameras in London Streets Traffic Control Centre (LSTCC), CentreComm and Bus Operations. Each of the reviews raised a number of issues and all were concluded as requires improvement.
- 8.5 Our review of legal compliance reporting was concluded as adequately controlled.
- 8.6 An audit of business continuity arrangements for non-operational areas of the business found that, although individual business areas each had their own business continuity manager, there was a lack of overall ownership of business continuity for TfL. This would enable greater consistency and co-ordination in matters of policy, strategy and processes. This has now been addressed, with the Managing Director, Surface Transport taking on overall responsibility for business continuity.
- 8.7 An audit of compliance with the requirements of the Standing Orders' Scheme of Authorities was in progress at the year end.

## **9 Human Resources**

- 9.1 Work under this heading provides assurance against risk SR2: Workforce Adaptability. Following the issue of several 'poorly controlled' reports in respect of HR topics during 2015/16, we have attempted to work closer with HR during 2016/17 as they reassessed their strategic risks and key controls in order to identify where there may be areas that would benefit from specific assurance work.
- 9.2 We carried out a further audit of controls over Movers and Leavers, which had been one of the 'poorly controlled' audits in the previous year. We found significant improvement from the previous audit, but there remains more to be done to address the underlying causes and there were issues over collection from leavers of building passes and TfL assets.
- 9.3 Our audit of Performance and Development processes and controls was concluded as 'adequately controlled'.
- 9.4 Following on from our work last year on the efficiency and effectiveness of the structure and processes in relation to the employee relations machinery in R&U, we continued that theme across Professional Services and ST. Our report identified a number of issues including a lack of collective oversight of the framework agreements within ST Operations and outdated framework agreement(s) that may no longer deliver business need.

- 9.5 At the request of management we carried out an audit of the controls over the Make a Difference Instant Awards scheme. Based on our findings, Reward and Recognition carried out a re-evaluation of the risks associated with the scheme and a fresh cost benefit analysis. As a result, it was decided to discontinue the Instant Awards scheme.
- 9.6 As usual, we carried out a programme of audits on the TfL Pension Fund the results of which are also reported to the Pension Fund's Audit Committee. There were no significant issues arising from this work.

## **10 Crossrail**

- 10.1 Fourteen internal audit reports and three memorandums were issued in respect of Crossrail during the year. Of the audit reports, none were concluded as 'poorly controlled', three were concluded as 'requires improvement', six were 'adequately controlled' and five were 'well controlled'. This indicates that there is a generally good standard of internal control in place in Crossrail. The results of work in Crossrail are also reported to the Crossrail Audit Committee.
- 10.2 The internal audits concluded as 'requires improvement' were as follows. All of the agreed actions will be followed up to ensure they have been addressed.
- An audit of the Transition of the Tunnelling and Underground Construction Academy (TUCA) identified that the new training provider had not set any KPIs, targets or objectives, the TUCA facilities management requirements had not been defined and there was insufficient control of the Dilapidation Schedule by the RfL Project Manager.
  - An audit of the RfL/ Crossrail Systems & Information Programme (RCSIP) identified that additional funding for the project had not been approved as required, records of option assessment for the preferred asset management solution were not available, and reporting within the programme was found to have discrepancies against the activities planned.
  - An audit of the RfL Management Systems identified that some engineering actions had not been tracked or escalated to senior management, there was evidence of systemic non-compliance with document management processes, and "Pathway" had not been adopted as the project methodology as required by the infrastructure maintainer.
- 10.3 We also carried out 60 technical and quality audits of compliance with aspects of the Crossrail management system, both within Crossrail and its contractors. None of these audits were concluded as 'poorly controlled', thirteen audits were concluded as 'requires improvement',

fourteen were 'well controlled', with the remainder being 'adequately controlled'.

10.4 A further 82 contractor audits were carried out during the year by the health & safety and environmental audit teams within Crossrail. Two of these audits were concluded as 'poorly controlled' and sixteen were 'requires improvement'. The remainder were 'adequately controlled' or 'well controlled'. Of the two that were considered 'poorly controlled', one related to contractor Health & Safety, the other to contractor Environmental Management. In both cases the issues identified have now been addressed.

10.5 In all cases, prompt action has been taken to address the issues raised, with 93 per cent of actions being closed on time, and all except four being closed within 30 days of the due date.

## **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.

11.2 We completed three audits during the year, all of which were concluded as 'requires improvement':

- A review of grant funding found issues relating to management reporting of grant usage and monitoring of project costs.
- An audit of the process and planning for the generation of new income streams for the Museum, including the pop up shops and the Hidden London Project found a lack of information on costs associated with proposals for generating income in the Commercial Strategy and inconsistency in the format and quality of business cases prepared for proposed activities.
- The audit of LTM IT governance found there was a need for a formal information management strategy to set direction and priorities, and for improved communication between the Museum's IM team, its senior management, and the Trustee Board.

11.3 An audit of controls over the creation and implementation of the new Safeguarding Policy was underway at the year end.

**INTERNAL AUDIT CUSTOMER FEEDBACK FORM  
SUMMARY OF RESPONSES FOR 2016/17**

We send a customer feedback form to our principal auditee at the conclusion of each audit. This table sets out the questions asked and the responses, including a selection of the freeform comments that we have received.

**Customer Feedback Forms Sent (Period 1 – 13) = 203 (2015/16 = 174)**

**Customer Feedback Forms Returned (Period 1 – 13) = 107 (2015/16 = 70)**

		No score given	Very poor	Poor	Satisfactory	Good	Very good
<b>ASSIGNMENT ASSESSMENT CRITERIA</b>			1	2	3	4	5
<b>PLANNING AND TIMING</b>							
1)	The assignment timing was agreed with me and there was appropriate consideration of my other commitments as the work progressed	0 (0)	0 (0)	1 (1)	14 (8)	47 (27)	45 (34)
2)	The assignment was completed and the report issued within appropriate timescales	0 (0)	0 (3)	3 (3)	13 (8)	41 (23)	50 (33)
<b>COMMUNICATION</b>							
3)	Communication prior to the assignment was appropriate, including the dates and objectives	0 (0)	0 (1)	2 (1)	11 (10)	40 (26)	54 (32)
4)	Throughout the assignment I was informed of the work's progress and emerging findings	0 (0)	0 (1)	2 (5)	17 (8)	42 (29)	46 (27)
<b>CONDUCT</b>							
5)	The Internal Audit team demonstrated a good understanding of the business area under review and associated risks, or took time to build knowledge and understanding as the work progressed	0 (0)	0 (0)	1 (5)	18 (11)	37 (24)	51 (30)
6)	The Internal Audit team acted in a constructive, professional and positive manner	0 (0)	0 (0)	1 (5)	16 (3)	34 (24)	56 (38)
<b>RELEVANT AND USEFUL ADVICE AND ASSURANCE</b>							
7)	A fair summary of assignment findings was presented in the report	0 (0)	0 (2)	3 (3)	14 (7)	47 (27)	43 (33)
8)	Assignment recommendations were constructive, practical and cost-effective	0 (0)	0 (0)	4 (5)	20 (11)	46 (23)	37 (31)
9)	My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations	0 (0)	0 (0)	2 (5)	14 (7)	42 (26)	49 (31)

**Other comments including suggested improvements and areas of good performance:**

*"It was useful to have our internal view that we were managing the process well confirmed!"*

*"Report was issued prior to final check of the final draft and it contained a number of errors or other points needing clarification."*

*"There was little understanding of the business area but the auditor did review the relevant agreements etc to build an understanding."*

*"Within timescales wasn't the issue however the content of the report did not reflect all of the work already [in progress]."*

*"Some good challenges raised around the TfL requirements [in this area] and this demonstrated a good knowledge."*

*"There were some delays at the start establishing the scope and some extra revisions at the end relating to what had been discovered. These were appropriate and delivered to mutually agreed timescales."*

*"Good communication around date changes, and draft versions of the required documents. Meeting on site was a big help for someone new to the business like myself."*

*"The audit team approached this audit in a very positive way even though the timescales has to be brought forward."*

*"The auditor was very professional and dealt with the issues in an appropriate manner."*

*"The audit will help us improve the overall management in this area. The recommendations were proportionate - exactly what we needed."*

*"It is fair to say that this audit was conducted in a very professional manner at which all [relevant areas], being covered well."*

*"overall all my dealings with any of the audit team have been very professional and positive. Your team have now changed my opinion on auditors. It's a shame that no more auditors are not like them."*

*"Other comments including suggested improvements and areas of good performance: my team and I were briefed on emerging issues and we were given the opportunity to highlight any areas of concern which benefit from being reviewed as part of the audit."*

*"The report has reached the attention of my senior management, who have been very complimentary. I have also used the report to congratulate my team."*

*"The audit team asked questions appropriately and demonstrated understanding of the subject matter and commercial challenges faced."*