



**Date: 4 October 2012**

**Item 10: Internal Audit Quarter 1 Audit Report 2012/13**

---

**This paper will be considered in public**

**1 Summary**

1.1 The purpose of this report is to inform the Committee of the audit work completed in the first quarter of 2012/13, the work in progress and work planned for Quarter 2 of 2012/13.

**2 Recommendation**

2.1 **The Committee is asked to note the report.**

**3 Background**

3.1 The Director of Internal Audit is required to provide an annual report in support of his opinion on the internal control framework. Quarterly reports are presented to the Committee in anticipation of the annual report.

**4 Work Done**

4.1 12 Final Audit Reports were issued during the quarter. One of the Final Audit Reports, in respect of Managing Attendance, was not closed as three of the agreed management actions had not been completed. These are now scheduled to be completed by the end of October 2012. A summary of the report findings (excluding one relating to the TfL Pension Fund) is attached as Appendix 3.

4.2 The table below shows the number of Interim Audit Reports and other outputs, including advisory/ consultancy reports and memorandums, issued during the quarter, together with comparative figures for the prior year to date.

	Interim Audit Reports					Other Outputs (Advisory Reports/ Memos)	
	Well Controlled	Adequately Controlled	Requires Improvement	Poorly Controlled	Total		Total
This Quarter	1	4	2	0	7	6	13
Q1 2011/12	3	7	10	0	20	3	23

- 4.3 The number of reports issued during the quarter was significantly below the number issued in the same quarter last year. However, this does not indicate any underlying reduction in activity and is simply a reflection of the uneven timing of the issue of audit reports.
- 4.4 Details of the findings from the interim reports issued during the period can be found in Appendix 4.
- 4.5 A summary of the other outputs issued during the quarter, including memorandums and advisory reports, can be found in Appendix 5. One significant piece of work was our review of TfL's relationship with the Independent Investment Programme Advisory Group (IIPAG). The review included interviews with a wide range of stakeholders across TfL. Overall we found that the IIPAG had brought considerable benefit to TfL through its scrutiny of projects and programmes. The memorandum noted a number of issues with the implementation of IIPAG and with the process and manner in which the group engaged with TfL. However, it also noted that there had been considerable improvement in working relationships over the past year, with greater understanding and cooperation by both parties.
- 4.6 One piece of work was added to the plan during the quarter at the request of management. This followed an incident earlier in the year in which an interruption to the power supply at TfL's sub-contractor hosting the SAP system, led to a period of SAP downtime. We were asked to review the change control and crisis management processes in place.
- 4.7 Work in progress at the year end is shown in Appendix 1 and work due to start in the second quarter of 2012/13 is shown in Appendix 2.

## 5 Other Assurance Providers

- 5.1 In reaching his overall opinion on the effectiveness of internal control in TfL, the Director of Internal Audit takes account of work carried out by other assurance providers as well as work carried out directly by Internal Audit. The following paragraphs provide a brief summary of work carried out by other assurance providers during Quarter 1.

## **LU HSQE Audit**

5.2 Seven audit reports from Quarter 4 of 2011/12 were issued and 14 planned audits for Quarter 1 of 2012/13 have either been completed or are in draft report stage. These included:

- (a) an audit of compliance with the Handbook for Administrators on the District Line Stations identified inconsistencies with some requirements. These relate to the assurance of competence and the control of local expenditure. The audit has led to changes to the Occupational Health section of the Handbook and an administrators' event day aimed at improving awareness of requirements;
- (b) an audit of Track Familiarisation for Station Supervisors identified some instances of non-compliance and the need to improve performance management of these requirements utilising SAP;
- (c) verification activity was undertaken to assess whether previous deficiencies in the management of digital CCTV on stations had been addressed. This found that improvements had been made, but there was still a need to consistently communicate and embed arrangements to ensure that incidents can be quickly reviewed to avoid unnecessary delays to service resumption;
- (d) an audit of 'working at height' controls was undertaken following a number of incidents in the Asset Performance Directorate (APD). This identified the need to improve safe systems of work planning and implementation and monitoring of controls;
- (e) an audit of management of risk from driving vehicles identified non-compliances and gaps in knowledge with regard to the LU policy on use of pool cars. Compliance with the policy ensures that LU is insured and that fatigue risks are managed. Corrective actions are in place to address these findings; and
- (f) an audit on the Capital Programme Directorate's use of the Project Management Framework (PMF) was undertaken to assess the effectiveness of the Gates Process, including how conflicts and problems are resolved. The audit found that PMF is generally being used as intended by Sponsors and Gate Managers, although a number of observations were raised in relation to its effective implementation for the projects sampled. The Audit Client is to issue an Action Plan in conjunction with the Special Interest Groups and the Lean APD Project Team to address the findings.

## **Tube Lines Audit**

5.3 During the quarter, nine audit reports were issued. The audits covered Intermediate and Minor Works Assurance; Track Security & Vegetation; Business Continuity Planning; Configuration Control on the Jubilee Line; a Lifts and Escalators supplier review; Amey Secondment Fees & Expenses; Hiring of Agency Workers & Consultants; and reviews of Games 2012 Preparation for two suppliers. Seven Corrective Action Requests (CARs) and 17 Business Improvement Actions (BIAs) were raised against findings in these audits.

5.4 In all cases, there will be follow up to ensure that appropriate action has been taken by management to address the CARs and BIAs raised.

**CGAP Reviews/IIPAG**

5.5 Investment Programme projects with a total cost over £5m are subject to the Corporate Gateway Approval Process (CGAP). Following the Organisational Review, the CGAP reviews are now managed by the Assurance Team as part of the TfL Programme Management Office (PMO). The assurance reports are considered alongside the project’s authority request at the operating business boards with the operating Managing Director and the Managing Director, Finance in attendance.

5.6 In Quarter 1, 26 reviews were conducted, including a combined review of seven major highways structures. The IIPAG provided oversight and guidance on nine reviews, all of projects with an Estimated Final Cost of over £50m. Issues arising from the reviews are presented to the operating boards with agreed actions, owners and timescales.

5.7 Some of the more significant reviews during Quarter 1 were Hanger Lane Bridges (Gate E); Future Capacity Stations Programme (Gate A); Major Power Works for the Sub-Surface Upgrade (Gate C); Blackwall Tunnel Northbound Refurbishment (Gate E); Hammersmith Flyover (Gate B); Major Highways Structures (Gate A); and Baker Street Station Improvements (Gate B).

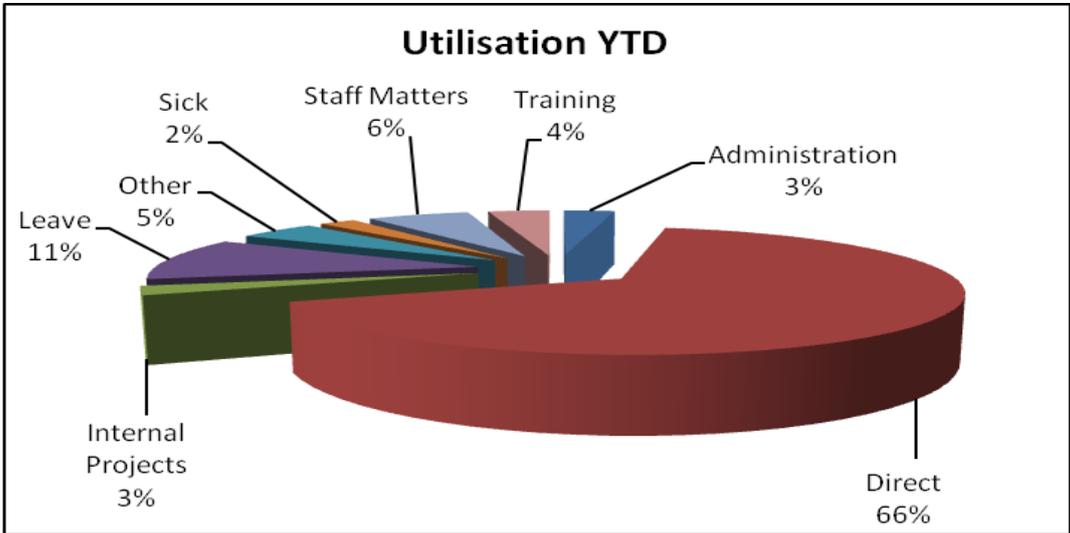
**6 Resources**

6.1 Our Information Management Auditor vacancy has been filled by an external candidate.

6.2 A recruitment process to fill an Internal Auditor vacancy was successfully concluded. The successful candidate took up her post on 20 August 2012.

6.3 One other Internal Auditor left the department during the quarter to take up a post elsewhere in TfL. A recruitment process to fill the vacancy is in progress.

6.4 The department’s utilisation for the year to date is set out in the following chart:



## **7 Benchmarking and Networking**

- 7.1 The Assurance Delivery Group, chaired by General Counsel, has continued to meet. Its focus is now on the further embedding of integrated assurance, including development of effective risk mapping for selected business areas, and reporting on progress with delivery of the Integrated Assurance Plan.
- 7.2 We continue to develop plans for the transfer of the London Underground (LU) Health, Safety and Environment (HSE) audit team into Internal Audit towards the end of the year. This will be a simple change of reporting line for the LU HSE audit team and will not constitute an organisational change. It will be another step forward in the implementation of integrated assurance arrangements for TfL.
- 7.3 During the quarter we carried out a peer review with the LU HSE audit team and the Tube Lines Audit team to assess and compare the standards and working practices in place. A memorandum setting out the findings has been issued during Quarter 2 and a summary will be included in the December Audit and Assurance Committee papers. Overall, the review found that the audit teams all follow methodologies that are aligned with appropriate professional standards.
- 7.4 We continue to meet regularly with the Head of the TfL PMO to discuss upcoming work and ensure that any potential areas of overlap are properly managed.
- 7.5 The Crossrail Integrated Assurance Group (CIAG), which comprises representatives of assurance providers from a range of Crossrail stakeholders, has continued to meet during the quarter. The CIAG is a useful forum for the sharing of assurance activity, which helps minimise the risk of duplication of effort between assurance providers.
- 7.6 KPMG commenced its review of TfL Internal Audit effectiveness during July 2012. It had been hoped that the findings from the review would be reported to this meeting. However, completion of KPMG's work was delayed as a result of unavailability of some stakeholders due to commitments relating to the Games 2012. KPMG's findings will now be reported to the December meeting.

## **8 Customer Feedback**

- 8.1 At the end of every audit, we send out a customer feedback form to the principal auditee(s) requesting their view on the audit process and the report. The form is questionnaire-based so it can be completed easily and quickly. With effect from 1 April 2012, we have changed the format of our questionnaire with the aim of ensuring it is more clearly focused on key areas of performance. A copy of the questionnaire and the feedback for the quarter is included as Appendix 6. Because the form is new, no comparative figures can be provided this time, but with effect from Quarter 2, comparative figures for the previous quarter will also be shown.

**List of appendices to this report:**

- Appendix 1 – Work in Progress at the end of Quarter 1 2012/13
- Appendix 2 – Work Planned at the end of Quarter 1 2012/13
- Appendix 3 – Final Reports Issued in Quarter 1 2012/13
- Appendix 4 – Interim Reports Issued in Quarter 1 2012/13
- Appendix 5 – Reports and Memorandums Issued in Quarter 1 2012/13
- Appendix 6 – Customer Feedback Form – Summary of Responses for Quarter 1

**List of Background Papers:**

Audit reports.

Contact Officer: Clive Walker, Director of Internal Audit  
Number: 020 7126 3022  
Email: [Clivewalker@tfl.gov.uk](mailto:Clivewalker@tfl.gov.uk)

Transport for London	Appendix 1
Internal Audit plan 2012/13 by directorate	
Approved by the TfL Audit Committee 7 March 2012	Work in Progress at the end of Quarter 1 2012/13
Work Item	Outline scope
<b>Pan TfL</b>	
<b>Efficiencies delivery</b>	
Outsourcing of support services	To ensure that the procurement processes employed for the market testing of support services are managed effectively, in accordance with approved procedures and EU directives, and are open, fair and transparent.
<b>Project delivery &amp; contract management</b>	
Document Management Systems Improvement Programme	To provide assurance that the programme to improve TfL's document management systems is being managed in an efficient and effective manner.
Facilities management contracts.	To review the effectiveness of contract management and administration controls and processes for delivering facilities management services.
Fraud Risk in Projects and Contracts	Review of the effectiveness of fraud prevention and detection controls within projects against a fraud risk maturity model, continuing work began in 2011/12.
Project management of compensation events	Review of the extent to which compensation events are forecast and managed in a consistent and coordinated manner for the overall benefit of TfL.
Incentives in Contracts	To review the effectiveness of the selection and application of incentives within contracts let by TfL and the extent that value for money is demonstrated.
Supplier Relationship Management	Review the efficiency and effectiveness of the policy and processes applied across TfL to manage relationships with its key suppliers (critical and strategic suppliers).
<b>IM Governance</b>	
Security of Data	To ensure that there are adequate controls in place to secure TfL data against loss, inappropriate use or failure to comply with regulatory requirements. The audit will include consideration of TfL's resilience to computer viruses and cyber crime.
IM Risk Management	Review the effectiveness of the processes in place to identify, manage and mitigate IT risk.
Contact Centre Operations - Protection of personal data	To review the adequacy and effectiveness of the controls that have been implemented within the First Contact and Customer Support teams to ensure the security of personal data.

<b>Work Item</b>	<b>Outline scope</b>
SAP Change Control/Crisis Management	Review of the effectiveness of the change management processes that have been implemented at Northgate by Axon, including the policies, processes and procedures that have been implemented to ensure effective crisis recovery and replacement of equipment at the end of its life.
<b>Games delivery</b>	
Games Assurance Letters (Second review)	Review the processes for preparation of the Games Assurance Letters (Second set of letters).
Olympic Security Assurance Work	Real-time assurance over potential security threats to the Games.
<b>Other</b>	
Security of SCADA (Security Control and Data Acquisition) systems pan TfL	To review the process and supporting mitigation against cyber attack and security breaches within procured SCADA systems.
Information Security Classification, Marking and Handling Scheme	To audit the effectiveness of the implementation of the recent Information Security Classification, Marking and Handling Policy.
<b>Underground, Rail and Tube Lines</b>	
<b>Core Financial Processes</b>	
Financial controls over payments to contractors on major projects	Review financial controls over a sample of major infrastructure projects, focusing on how contract management teams assure themselves of the accuracy and validity of invoices.
<b>Other</b>	
Security assurance of Cable Car Project	Provide real time security assurance and consultancy on security risk for the cable car project.
SQE Audit Teams - Peer Review	Peer review of the LU and TLL SQE Audit Teams.
<b>Finance</b>	
<b>Project delivery &amp; contract management</b>	
Category Management	To review the effectiveness of the policy and processes, and related implementation plans, being developed for category management.
<b>IM Governance</b>	
Security of Back-up media and offsite storage	To review the current security arrangements and offsite storage for back-up media.
Security and resilience of data centres	To review the current security arrangements including resilience controls at two data centres.
Management of IM Performance	To establish the effectiveness of the approach and related processes and controls that have been implemented to measure Your IM's solution and service delivery.

<b>Work Item</b>	<b>Outline scope</b>
Security of TfL Websites	To review security of TfL websites, including testing for vulnerability to cyber attacks.
<b>General Counsel</b>	
<b>Project and Contract Management</b>	
Management of archiving contracts	Review, requested by the Head of Information Governance, of the process used to renew record storage and archiving contracts and the effectiveness of current contract management arrangements following the transfer of responsibility for this area to Information Governance.
<b>Other</b>	
Annual Health, Safety and Environment Assurance Letters	Review the operation of TfL's Annual Assurance Letters process including examination of accuracy and rigour of self assessment returns.
Freedom of Information (FOI)	Review of effectiveness of process and controls for receipt and processing of FOI requests.
Employment Tribunal Processes	Review TfL's processes for managing employment tribunals brought against it.
<b>One HR</b>	
<b>IM Governance</b>	
Taleo Recruitment System	Review the effectiveness of controls in place to ensure integrity, availability and security of the data maintained and managed by the Taleo application.
<b>Crossrail</b>	
Budgeting and Forecasting	Review the management of budgeting and forecasting within Crossrail.
Trend and change control	To provide assurance that the Trend and Change control process is robust and being consistently applied.
Insurance arrangements	Review the management of Crossrail insurance arrangements with contractors and the interface with Industry Partners.
Construction Management	Review processes and controls over contract administration; contract monitoring (including contractor arrangements to cover catastrophic risk); and construction management.
Fujitsu Contract Review	Review the effectiveness of contract management of Fujitsu to ensure that the Fujitsu is meeting current business requirements and continuing to adhere to the contract agreements and SLAs, and that its performance is competitive with alternative suppliers and market conditions.
Project Delivery Partner Contract Performance	Review extent to which the contractor is meeting the integration expectations under the new delivery model.
<b>London Transport Museum</b>	
London Transport Museum (LTM) Efficiencies Review	Consultancy work around the planning and delivery of LTM's programme of efficiencies.
<b>TfL Pension Fund</b>	
Review of Compendia / SAP Interface	Review the effectiveness of interface controls between Compendia and SAP.

<b>Transport for London</b>		<b>Appendix 2</b>
<b>Internal Audit plan 2012/13 by directorate</b>		
<b>Approved by the TfL Audit Committee 7 March 2012</b>	<b>Work Planned at the end of Quarter 1</b>	
<b>Work Item</b>	<b>Risk Category</b>	<b>Outline scope/reason for cancellation or deferment</b>
<b>Pan TfL</b>		
<b><i>Embedding Change</i></b>		
Business Continuity	External threat	Review of business continuity arrangements in non-operational areas of the business following the organisation changes arising from Horizon.
<b><i>Project delivery &amp; contract management</i></b>		
Implementation of a single Project Management Framework (PMF) and Project Management (PM) System	Project Delivery	Review the implementation of a single project management framework and system across TfL.
Delivery of Business Driven IM Projects	Project Delivery	Review of the controls that have been implemented by IM to effectively manage the lifecycle of IM projects, including the development of a business case with outlined costs and benefits and the monitoring of benefits realised from the delivery of IM projects.
<b><i>IM Governance</i></b>		
IM Operating Model [Service Management]	Operations, Facilities and Systems	Real time review of work streams that cover distinct aspects of the operating model to be implemented by IM in the delivery of services, including the definition of IM service models, management of IM service catalogues and management of IM configuration.
Run Better Programme	Strategy & Leadership	A real time review of the governance processes that have been established over the Run Better Programme.

<b>Work Item</b>	<b>Risk Category</b>	<b>Outline scope/reason for cancellation or deferment</b>
SLAs and OLAs	Operations, Facilities and Systems	Real time review of the governance and management processes that have been implemented by IM in the definition and agreement of service and operating level agreements.
<b>Core Financial Processes</b>		
General Ledger Management	Financial funding & Fraud	Review the effectiveness of controls over general ledger processes.
Lost Property Office	Operations, Facilities & Systems	Review of process and controls around cataloguing; security; and disposal of other unclaimed items.
<b>Finance</b>		
<b>Core Financial Processes</b>		
Payment Card Industry (PCI) Data Security Standards (DSS) Compliance Pre assessment	Financial Funding & Fraud	Review to be conducted prior to the External PCI DSS QSA assessment to ensure that all appropriate arrangements and mitigation are in place and commensurate with PCI DSS.
<b>IM Governance</b>		
SAP Password Sharing	Information, Communications & Knowledge	Review the effectiveness of controls that have been implemented to prevent the sharing of passwords within the SAP environment and controls over the use of substitutes.
Delegated authorities	Financial, Funding & Fraud	Review of compliance with TfL Standing Orders in respect of delegated authorities, following Project Horizon organisational changes.
<b>General Counsel</b>		
<b>IM Governance</b>		
TfL's Incident Management Process	Information, Communications & Knowledge	Review of the current incident and escalation management process that supports security breaches.

<b>Work Item</b>	<b>Risk Category</b>	<b>Outline scope/reason for cancellation or deferment</b>
<i>Other</i>		
Transparency Agenda	Legal Compliance & Regulation	Review controls over arrangements for publishing on TfL's website details of transactions over £500, contracts, senior staff salaries and expenses.
<b>One HR</b>		
<i>Other</i>		
Voluntary Severance	People & Skills	Review of processes and controls over the voluntary severance process including compromise agreements.
Non Permanent Labour	People & Skills	Review the effectiveness of the controls in place over non permanent labour (agency workers and contractors).
<b>Crossrail</b>		
Commercial Reliance		Review Crossrail's management of commercial agreements and assess the delivery of assurance by industry partners, including the proposed Network Rail Commercial Assurance Plan, and the interface with London Underground.
Data Management & Systems security		Review: a) key elements in the ongoing data management improvement programme; b) the management of the Active Directory; c) implementation of QUEST – the proposed new process for updating staff details.
Fraud Awareness Survey		Survey based analysis of fraud awareness in Crossrail.
Procurement of rolling stock		Review effectiveness of processes followed during the preliminary stages of the procurement of rolling stock including HSQE requirements.
Payroll controls		Review of how Crossrail ensures that PAYE is calculated correctly by external payroll provider, ADP.

Interim	Finals
AC= Adequately Controlled	WC= Well Controlled
RI= Requires Improvement	ACL= Audit Closed
PC= Poorly Controlled	ANC= Audit Not Closed
WC= Well Controlled	

Reference	Report Title	Interim Report Issued	Original Objective	Summary of Interim Findings	Final Report Issued
<b>Pan TfL</b>					
<b>IM Governance</b>					
IA_11_411 F	SAP Data Management	05/03/2012 RI	This audit reviewed the adequacy and effectiveness of the controls and processes that have been implemented by the SAP DMT to manage the quality of data held and processed by the SAP application.	<p>Our Interim Audit Report dated 5 March 2012 entitled SAP Data Management identified the following significant issues:</p> <ul style="list-style-type: none"> <li>The service level targets for the SAP master data maintenance services provided by the SAP DMT had been set to two working days. The factors that had been considered when the target date had been set had not been recorded or signed off by SAP DMT's customers in the form of service level agreements. In addition, service level targets for more complex services and escalation procedures for dealing with under-achievement on service level targets had not been established.</li> <li>The SAP DMT had not implemented a process to ensure classification and handling of the information it deals with in compliance with TfL's Information Security Classification Standard.</li> </ul> <p>We have now completed a follow up review which confirmed that management has satisfactorily addressed the issues raised.</p> <p>This audit is closed.</p>	20/06/2012 ACL
<b>Underground and Rail (including Tube Lines)</b>					
<b>Core Financial Processes</b>					
IA_11_616 F	Decommissioning and Disposal of Assets	11/11/2011 RI	To provide assurance that the processes used for decommissioning/disposal of assets are operating effectively and achieving value for money.	<p>Our Interim Audit Report dated 11 November 2011 entitled 'Decommissioning and disposal of assets' identified one significant and one other issue, namely:</p> <ul style="list-style-type: none"> <li>There were no TfL or LU policies to provide guidance regarding the controls that should be applied in the decommissioning and disposal of assets.</li> <li>There were no LU documented procedures providing guidance on the key fixed asset accounting tasks.</li> </ul> <p>We have now carried out a follow up review, and concluded that management has taken satisfactory action to implement the management actions from the Interim Audit Report.</p> <p>This audit is now closed.</p>	23/05/2012 ACL

Reference	Report Title	Interim Report Issued	Original Objective	Summary of Interim Findings	Final Report Issued
<b>Finances</b>					
<b>Core Financial Processes</b>					
IA_11_102 F	Payroll	22/12/2011 RI	To review the controls over TfL's end to end payroll processes, including SAP system configuration and authorisation controls, and management supervisory controls.	<p>Our Internal Audit Report dated 22 December 2011 entitled 'Payroll' identified the following significant issues:</p> <ul style="list-style-type: none"> <li>The ability to perform HR and payroll transactions in SAP was not adequately restricted to relevant users; and</li> <li>A central repository of critical system configuration information for SAP HR and payroll was not maintained.</li> </ul> <p>We have now carried out a follow up review of the agreed management actions. All have now been satisfactorily addressed. Accordingly this audit is now closed.</p>	30/04/2012 ACL
<b>Efficiencies Delivery</b>					
IA_10_145 F	Provision of Shared Services to Other GLA Members	26/07/2012 RI	To review the operation of shared service agreements for the provision of services to other members of the GLA family, including a review of re-charging mechanisms.	<p>Our Interim Audit Report dated 26 July 2011 entitled "Provision of Shared Services to Other GLA Members" identified four significant issues and one other issue. The four significant issues were:</p> <ul style="list-style-type: none"> <li>There was a need to introduce efficient and effective invoicing procedures for the Procurement and FSC service provided to GLA;</li> <li>Ownership of the IM aspects of the Procurement and FSC services had not been assigned. Consequently, a 2011/12 budget had not been set and agreed with GLA;</li> <li>The amount re-charged to the GLA for the Occupational Health service was not based on an estimate of the cost of the service provided;</li> <li>There were shortcomings associated with the processes by which the Procurement budget was calculated and agreed with the GLA.</li> </ul> <p>We have carried out a follow up review, and concluded that Management has fully implemented eleven, and partially implemented one, of the thirteen agreed actions in respect of these findings.</p> <p>A further action to agree detailed budgeted levels of service and prices to justify the 2011/12 Occupational Health Services budget was not implemented. The 2012/13 budget was based on bringing forward the 2011/12 figure, rather than being based on more detailed calculations of usage and cost. As these budgets have now been set and agreed with the GLA, it is no longer beneficial to pursue this action.</p> <p>The one partially addressed action was to agree a 2012/13 budget for a service before the start of the year. The budget was agreed but only after the start of the year.</p> <p>On the basis of our findings, this audit is now closed.</p>	08/06/2012 ACL
<b>IM Governance</b>					
IA_11_412 F	SAP Oracle Database Security	25/10/2011 RI	To review the adequacy and effectiveness of the controls that had been implemented to manage the security over the	<p>In our Interim Audit Report dated 25 October 2011 and entitled SAP Oracle Database Security, we identified the following significant issues:</p> <ul style="list-style-type: none"> <li>Even though majority of database functions were performed by directly accessing the SAP</li> </ul>	10/04/2012 ACL

Reference	Report Title	Interim Report Issued	Original Objective	Summary of Interim Findings	Final Report Issued
			Oracle databases that were used to store TfL SAP data.	<p>ERP applications, the HCL Axon database administrators used generic user accounts with powerful database privileges when directly accessing the TfL Oracle databases. The use of these accounts, which were not associated with individual users, was not logged and monitored.</p> <ul style="list-style-type: none"> <li>Password requirements for the database users had not been documented and the automated controls for password administration in the Oracle databases that would have enforced more stringent security in terms of user access had not been enabled.</li> </ul> <p>We have now undertaken a follow-up audit which confirmed that all of the issues raised in the original report have been satisfactorily addressed. This audit is now closed.</p>	
IA_11_410 F	SAP Change Management	02/11/2011 RI	To ensure that TfL's SAP change management process was adequately designed, functions effectively and the changes made to the SAP applications met TfL's needs.	<p>Our Interim Audit Report dated 26 October 2011 entitled SAP Change Management, identified the following significant issues:</p> <ul style="list-style-type: none"> <li>A significant number of users had the ability to make changes to the SAP software and operational procedures; and</li> <li>The development environment was not refreshed as changes were implemented in the live environment. This presented a risk that avoidable errors would not be picked up prior to regression testing.</li> </ul> <p>We have now undertaken a follow-up audit which confirmed that all of the issues raised in the original report have been satisfactorily addressed.</p> <p>This audit is now closed.</p>	31/05/2012 ACL
<b>Project and Contract Management</b>					
IA_10_324 F	Call off Contracts and Management of Consultants	08/11/2011 RI	To review the efficiency and effectiveness of the controls and procedures in place for the call off and management of consultants from the framework agreements by TfL Corporate.	<p>Our Interim Audit Report dated 8 November 2011, entitled 'Call off Contracts and Management of Consultants', identified two significant issues and two non-significant issues. These resulted in a number of management actions being agreed.</p> <p>We have now completed a follow up review, and concluded that management has satisfactorily addressed all of the management actions from the audit.</p> <p>This audit is now closed.</p>	27/04/2012 ACL
<b>Marketing and Communications</b>					
IA_11_126 F	Travel Information Centres	25/10/2011 RI	The aim of the audit was to review the effectiveness of the Travel Information Centres' key financial controls.	<p>Our Interim Audit Report, dated 25 October 2011 and entitled Travel Information Centres (TICs), identified one significant issue. Errors were found in the spreadsheet journal used to post TIC sales to the relevant SAP accounts. This resulted in inaccuracies in Periods 4 and 5 of 2011/12, and possibly the previous periods for which the same spreadsheet was used. This resulted in three management actions.</p> <p>Five other issues were raised, leading to a further eight management actions.</p> <p>We have now carried out a follow up review of the agreed management actions and found that</p>	30/04/2012 ACL

Reference	Report Title	Interim Report Issued	Original Objective	Summary of Interim Findings	Final Report Issued
				they have been satisfactorily addressed. Accordingly, this audit is now closed.	
<b>One HR</b>					
IA_10_143 F	Managing Attendance	31/03/2011 RI	To review the effectiveness of the policies, procedures and controls in place across the TfL Group in managing attendance at work.	<p>Our Interim Audit Report dated 31 March 2011 entitled Managing Attendance identified the following significant issues:</p> <ul style="list-style-type: none"> <li>• Under-reporting of staff absence within the non-operational areas of the business</li> <li>• Management reporting on sickness absence did not quantify the monetary cost of sickness absence and there was no benchmarking against other similar organisations</li> <li>• Some non-operational parts of the business did not monitor unsatisfactory levels of attendance and take appropriate action as per the attendance policy</li> <li>• Some parts of the attendance policy and procedures required further clarification</li> <li>• Not all line managers had the skills required to manage attendance or had attended appropriate training courses</li> <li>• Special leave was not being monitored</li> </ul> <p>These resulted in ten management actions. Three other issues were raised, resulting in a further three actions.</p> <p>We have now carried out a follow up review of the status of the agreed management actions.</p> <p>The original planned date for this follow up was extended from 31 July 2011 to 30 April 2012 due to HR transition following Project Horizon. Organisational and HR change has been taken into account during the follow-up and is reflected further in the Status of Agreed Actions.</p> <p>We found that management has satisfactorily implemented four actions, partially implemented six, and three actions remain not addressed.</p> <p>The three agreed actions that have not yet been addressed are as follows:</p> <ul style="list-style-type: none"> <li>• Rules around staff working from home when sick to be clarified and communicated to all managers</li> <li>• Group Business Performance &amp; Planning (GBP&amp;P) to assign costs to sickness absence and undertake regular benchmarking with other similar organisations, in their Barometer reports to senior managers</li> <li>• HR Business Partners to request and review, at least quarterly, reports on paid special leave and any excessive leave granted to be followed up with the relevant managers</li> </ul> <p>Accordingly, this audit is not closed. We will carry out a second follow-up review by 28 October 2012 to confirm that the remaining actions have been addressed.</p>	11/06/2012 ANC
<b>Crossrail</b>					
IA_11_522 F	Technical Assurance	03/02/2012 RI	To review the management, communication and reporting of Technical Assurance to ensure that it is both adequate	Our Interim Audit Report dated 3 January 2012 entitled Technical Assurance showed that the Technical Directorate had made commendable progress in putting in place a framework for the delivery of technical assurance in Crossrail, which helps to satisfy the requirements of the Project Delivery Agreement (PDA). However, the report identified two significant issues:	13/04/2012 ACL

Reference	Report Title	Interim Report Issued	Original Objective	Summary of Interim Findings	Final Report Issued
			and appropriate.	<ul style="list-style-type: none"> <li>Crossrail and the Infrastructure Managers (IMs) needed to agree on how stations are to be assured, in detail, in order to avoid potential future delays in the assurance process; and</li> <li>The CAG meeting could have been more efficient if there had been increased visibility of technical design proposals by IMs prior to meetings.</li> </ul> <p>We have carried out a follow-up review of the status of the agreed management actions from our interim report and found that all actions have been satisfactorily addressed. This audit is therefore closed.</p>	
IA_10_500 F	Competence Management	<b>21/03/2011 AC</b>	To provide assurance that the competence of key personnel (both staff and contractors) performing assigned roles and tasks are assessed, managed and maintained throughout their employment.	<p>Our Interim Audit Report dated 21 March did not identify any significant issues but did raise some other issues, for which four management actions were agreed.</p> <p>A follow up review was conducted in February and found that three of the four actions had been addressed satisfactorily. However, the fourth action relating to the implementation of a competency matrix had not been addressed fully.</p> <p>In view of the importance of the action, coupled with the fact that there were two related Crossrail Quality and Assurance Team CARs open at that time, the audit was not closed.</p> <p>A second follow-up review has been conducted to review the status of the final action. Evidence was provided that satisfactorily addressed the outstanding action. This audit is therefore now closed.</p>	<b>23/05/2012 ACL</b>
IA_11_510 F	Crossrail Procurement Process	<b>12/06/2012 WC</b>	Provide assurance that the current Crossrail procurement policies and procedures are effective, are being applied to procurement work and comply with the Crossrail Procurement Code.	See Interim Audit Report Summary in Appendix 4.	<b>12/06/2012 WC</b>

<b>Interim</b>
AC= Adequately Controlled
RI= Requires Improvement
PC= Poorly Controlled
WC= Well Controlled

Reference	Report Title	Interim Report Issued	Original Objective	Follow-up Audit	Summary of Interim Findings
<b>Pan TfL</b>					
<b>Core Financial Processes</b>					
IA_11_103	Cash Forecasting	14/06/2012 RI	The aim of the audit was to review the adequacy and effectiveness of the TfL cash forecasting processes.	30/04/2013	<p>We identified the following three significant issues:</p> <ul style="list-style-type: none"> <li>The rules for investigating variances between forecast and actual results need to be clarified and consistently applied across all business areas, in order to ensure this activity is meaningfully undertaken, and used to improve the quality of forecasts.</li> <li>Forecasts are prepared on an activity basis (for example, maintenance, repairs, refurbishments etc), while actual payment outflows are reported by suppliers. This makes it difficult to effectively investigate variances.</li> <li>Group Treasury does not currently use the business areas' quarterly long-term forecasts for long-term cash management in the same manner as the short-term forecasts. Consequently, there is no sufficiently detailed long-term forecast, as exists for short-term.</li> </ul>
<b>Games Delivery</b>					
IA_12_619	Games Transport Operations Funding	21/06/2012 AC	To provide assurance that TfL has appropriate processes in place to enable recovery of incremental costs that have been incurred specifically for the Games, and that these processes are being followed.	30/07/2012	<p>The following areas of good practice were identified:</p> <ul style="list-style-type: none"> <li>A comprehensive funding tracker has been developed by the Games team. The tracker details the various work streams across the business areas, the funding allocated, forecasts, amounts invoiced. The information is also presented on a dashboard. There is regular forecasting and reporting of Olympics costs by the business areas to the Games team. The information is consolidated and presented to the Chief Officers' weekly meeting.</li> <li>Games related activities are broken down by comprehensive Work Breakdown Structures in order to capture Games related costs. This enables quick analysis of costs and speeds up the invoicing process. Guidance has been provided by the Games team to the operating businesses on drawdown requests and the invoicing process to be followed.</li> </ul> <p>TfL faces a number of challenges during and after the delivery of the games in respect of recovering all of the additional operational costs incurred. There are fairly rigorous processes</p>

Reference	Report Title	Interim Report Issued	Original Objective	Follow-up Audit	Summary of Interim Findings
					<p>that need to be followed in order for payments to be approved by the ODA and LOCOG. We raised concerns with the Games team that TfL is not accustomed to justifying costs to external bodies, and there may not be the willingness or ready ability to do so for fairly small amounts.</p> <p>The Games Team have undertaken to ensure that all costs identified to them will be pursued, and a timetable has been sent to the operating businesses detailing when invoices need to be submitted for payment to ensure that this is done in a timely manner. There is some risk, though, outside of the control of the Games Team, that some costs may not be identified and reported by the operating businesses.</p> <p>There were no significant issues identified in the report.</p>
<b>Surface Transport</b>					
<b>Core Financial Processes</b>					
IA_11_111	Cycle Hire Financial Controls	17/05/2012 RI	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.	30/09/2012	<p>The audit identified a number of positive areas:</p> <ul style="list-style-type: none"> <li>• In a sample of 200 accounts tested, the BOP2 IM system generated the correct user charges for cycle journeys given the journey times supplied to it by the BOP1 system;</li> <li>• Controls over refunds have improved following a fraud which exposed significant weaknesses in the refunds process. (However, there are still some process improvements to be made). No errors leading to financial loss to TfL were found in the 17 refunds in the accounts which were sample tested;</li> <li>• TfL has reconciliation processes to check that whatever financial accounting data is supplied by Serco, is accurately journaled into TfL accounts. A sample of reconciliations were tested and found to have been properly conducted;</li> <li>• TfL and Serco management are aware of the various issues with the financial accounting systems affecting BCHS and are planning courses of action to remedy them. There are regular reports and meetings between TfL and Serco to monitor progress on resolving the identified problems.</li> </ul> <p>We identified four significant financial control issues during the audit:</p> <ul style="list-style-type: none"> <li>• There have been instances of cycle hire users being double charged;</li> <li>• Many payments are failing when amounts are charged to users' bank accounts;</li> <li>• £573,045 of debt has accumulated since the inception of the scheme, of which £383,410 is over 90 days old. Historically there has been no debt recovery process leading to charges being left unpaid. Only in recent months have attempts been made to recover debts, and then only for those less than 91 days old for members and 181 days old for casual users;</li> <li>• There are discrepancies in records between various BCHS accounting systems. These are primarily due to IM malfunctions, but we also found that incorrect manual adjustments to accounts had created discrepancies.</li> </ul> <p>In addition, we identified four other issues.</p> <p>Since the detailed audit testing was carried out in early 2012 there has been further improvement to the control environment through the joint Serco/ TfL Finance Action Plan. The</p>

Reference	Report Title	Interim Report Issued	Original Objective	Follow-up Audit	Summary of Interim Findings
					limitations of the IM systems are now being mitigated by a range of manual checks, workarounds and reconciliations that are reflected in the full process documentation that has recently been produced. Surface Finance now carries out regular testing to confirm that the improved processes are properly embedded.
<b>Finance</b>					
<b>Core Financial Processes</b>					
IA_11_119	Purchase Order Release	05/04/2012 AC	To determine the adequacy and effectiveness of the Financial Services Centre purchase order release processes and controls.	05/07/2012	<p>We identified the main parties involved in the PO creation and release process, confirmed that responsibilities have been appropriately assigned, and that they were aware of these.</p> <p>The procedures have been documented and communicated to the relevant staff, and the responsibility for keeping them up to date has been appropriately assigned. These procedures cover all the key stages of the process, and we confirmed compliance with them.</p> <p>There are arrangements for identifying other suitable areas for inclusion in the PSS scheme, which is anticipated to consolidate any value for money benefits resulting from the arrangement. A body, the Shared Services Transactional Processes team, comprising members from each of the TfL business areas' Procurement Teams, is responsible for this.</p>
IA_11_116	Treasury Management - Investments	25/05/2012 AC	To provide assurance that the investments made are in line with the TMS and that the current and planned controls following the implementation of Quantum are effective.	30/09/2012	<p>Good practice identified included the following:</p> <ul style="list-style-type: none"> <li>• The introduction of Quantum has improved efficiency and accuracy in the treasury operations by removing the need to use Excel spreadsheets and Word documents.</li> <li>• Quantum has enabled physical as well as logical separation of duties. The function of the core treasury team (dealing and approving), Financial Services Centre (settlements – payments) and Group Financial Accounting (matching deals to counterparty confirmations and monitoring treasury activities) have been separated. Users have been categorised by activity, for example; dealers, approvers, system administrators, with access managed entirely by the Project Manager.</li> <li>• Changes to static data within Quantum are subject to approval by the Group Treasurer and the Treasury Banking and Investment Manager. Quantum is hard coded to ensure that, for example, a dealer cannot approve their own deals.</li> <li>• A comprehensive suite of reports have been developed to monitor treasury activities. Reports are run automatically overnight and emailed to the treasury team members for consideration and review. Quantum includes real time information so reports can be run at any given time. One of these key reports includes the Investment Limit Report which is run on a daily basis and at intervals during the day. This report informs the treasury team where they are within the agreed limits and will alert them to any potential breaches.</li> <li>• The treasury team has put in place 'internal limits' which are less than the Board approved limits and include additional risk factors such as Credit Default Swaps ratings. This assists in assessing potential investments and thereby significantly reduces the likelihood of the Board limits being breached. In the event that it is deemed appropriate to exceed the internal limits, approval is sought from the Group Treasurer.</li> </ul>

Reference	Report Title	Interim Report Issued	Original Objective	Follow-up Audit	Summary of Interim Findings
					<ul style="list-style-type: none"> <li>A daily meeting is held between appropriate members of the treasury team where investment decisions and the current cash forecast are discussed. This ensures relevant staff are aware of the current investment profile and any impending cash volatility etc.</li> </ul> <p>We have identified one significant finding in relation to the reconciliation of Money Market Funds. A reconciliation of interest received is not currently undertaken due to funds being rolled forward (funds topped up as well as drawn down on a daily basis) and interest being received monthly. It is therefore not clear that the right amount of interest has been received for the sums and periods invested.</p>
<b>Crossrail</b>					
IA_11_519	Contingency Management	23/05/2012 AC	To provide assurance that contingency funds are being managed effectively.	30/07/2012	<p>The audit finds that effective controls were in place covering all areas of the scope, including:</p> <ul style="list-style-type: none"> <li>Governance arrangements;</li> <li>Documented procedures;</li> <li>Clear definitions of qualifying events/situations;</li> <li>Budgeting control;</li> <li>Recording and accounting;</li> <li>Compliance with the Project Development Agreement; and</li> <li>Monitoring and reporting arrangements.</li> </ul> <p>No significant issues were identified.</p>
IA_11_510F	Crossrail Procurement Process	12/06/2012 WC	Provide assurance that the current Crossrail procurement policies and procedures are effective, are being applied to procurement work and comply with the Crossrail Procurement Code.	12/06/2012 WC	<p>The Crossrail Procurement Code adequately defines and explains the key processes to be followed over the tender stage of the procurement lifecycle. The following examples of good practice were identified:</p> <ul style="list-style-type: none"> <li>The completion of a Contract Execution Checklist is a useful quality control to ensure that key questions have been considered at the contract execution stage;</li> <li>The maintenance of a list of contract addendums is also noted as an example of good practice as a means of monitoring and tracking addendums to ensure they are approved by the relevant stakeholders and included in the final copy of the contract;</li> <li>The maintenance of a list of outstanding issues at contract handover stage was noted on one tender as a means of ensuring any outstanding issues were not overlooked in the transition between the award of the contract and the execution of the contract; and</li> <li>Tenderers are entitled to a debrief where they are provided with reasons why their bid was unsuccessful or successful in the case of the winning tender. The debrief process at Crossrail is a good example of how to ensure that the rationale for decisions is clearly understood and explained both internally and externally. The process helps to support the transparency of the tender process and manage the risk of a potential challenge from suppliers.</li> </ul> <p>We identified no issues. We did, however, identify three minor administrative points where the issue of short guidance notes would be beneficial:</p>

Reference	Report Title	Interim Report Issued	Original Objective	Follow-up Audit	Summary of Interim Findings
					<ul style="list-style-type: none"> <li>• Details of any changes made to the Assessors used to assess bid documentation should be recorded and attached as an addendum to the Evaluation Plan;</li> <li>• Procurement Leaders should confirm, in writing, that any qualifications written on the Approval Control Sheets have been cleared or withdrawn with the agreement of the approver concerned; and</li> <li>• Procurement Leaders should publish the Contract Award Notice within the period stipulated in Clause 32.</li> </ul> <p>On the basis of the work completed, we have concluded that the Procurement Code controls are sufficiently robust and that the procurement process within Crossrail is well controlled. This audit is therefore now closed.</p>

Reference	Report Title	Date Issued	Report Type	Objective	Summary of Interim Findings
IA_11_145	Bribery Act 2010 Healthcheck	19/04/2012	<b>Memorandum</b>	To provide assurance over TfL's compliance with the Bribery Act 2010 (the Act), which came into force on 1 July 2011.	<p>Our review found that TfL already has adequate arrangements in place as required by the Act, although one agreed action, to update the Standard Service Contract for senior employees remains outstanding. Communications with the business regarding the Act should be refreshed from time to time to ensure that awareness is maintained.</p> <p>We recommended that a more formal assessment be carried out of TfL's exposure to bribery risk and stated that Internal Audit would be pleased to facilitate that review, with input from the Risk Management function.</p> <p>Internal Audit will carry out further reviews of Bribery Act compliance in the future as part of ongoing monitoring.</p>
IA_11_624	Bus Route Contract Procurement Management System	03/05/2012	<b>Memorandum</b>	To provide assurance on the adequacy of the current system established to manage the procurement of bus route contracts. The procurement process has changed recently and this audit will review the new systems in place.	LBSL has taken a number of steps to improve the route tendering process and enhance its compliance with the Utilities Contracts Regulation 2006 and the Utilities Contracts (Amended) Regulations 2009. We have however noted two areas where we consider that there is scope to improve the process still further. We plan to carry out an audit of the evaluation and award of contracts as part of our 2012/13 Audit Plan. We will sample a number of tranches procured through the new process and confirm the extent to which the documented processes are effectively operating in practice.
IA_11_518	Fraud assurance work on vendor master data in Crossrail	16/05/2012	<b>Memorandum</b>	To use data analytical techniques to identify any potential indicators of fraud, including duplicate invoices, in respect of vendor master data in Crossrail.	<p>The analysis highlighted two instances of duplicate invoices, or apparent duplicate payments, on SAP, although in both cases further investigation showed that no invalid payments had been made.</p> <p>Ten percent of the 677 VAT numbers on SAP were selected at random for validation. Five of these numbers were invalid and a further six were valid numbers but related to a different trading name. Crossrail management have taken appropriate action where necessary to correct VAT numbers or block further trading with these suppliers.</p>
IA_11_403	Ensuring Continuous IM Service	23/05/2012	<b>Memorandum</b>	To provide assurance that progress was continuing to be made towards developing and implementing greater resilience to the IM estate than previously existed.	<p>We were able to establish that progress was being made and in particular we noted that:</p> <ul style="list-style-type: none"> <li>• The SSP (Service Stabilisation Programme) had undergone the CIMM (Control Information Management Methodology) review process;</li> <li>• Some solutions for individual applications had already been identified and a few cases had already been implemented;</li> <li>• Key positions and stakeholders in the programme had been identified; and</li> <li>• The SSP Board met periodically in order to discuss progress, risks and issues.</li> </ul> <p>Work on the SSP will be suspended during the IM change freeze, which will take place between 31 May 2012 and 30 September 2012 because of the Olympic and Paralympic Games 2012. According to the project plan, the delivery is scheduled to be completed by 2014.</p>

Reference	Report Title	Date Issued	Report Type	Objective	Summary of Interim Findings
IA_12_502	Internal Audit Review of the Accounts of the Crossrail Complaints Commissioner (CC)	30/05/2012	<b>Memorandum</b>	Annual review of CC accounts for accounting accuracy.	The CC accounts, in all material respects, accurately reflect the receipts and payments during the financial period ending 31 March 2012. In all material respects, the accounts comply with the Accounts Direction issued on behalf of the Crossrail High Level Forum.
IA_11_601	TfL's relationship with IIPAG	21/06/12	<b>Memorandum</b>	To review the efficiency and effectiveness of TfL's response to the Independent Investment Programme Advisory Group (IIPAG) and to the advice and guidance it gives.	<p>Overall, the introduction of an external body to review the delivery of TfL's Investment Programme has had a considerable impact on the scrutiny of projects and programmes. The IIPAG has been in place for two years, and TfL has recognised the benefits that its independent challenge and industry knowledge can provide.</p> <p>There have been a number of implementation issues, especially with regard to clarity over the Group's role and purpose and its review methodologies and approach. Some conflicts of interest and professional conduct weaknesses had undermined the perception of the IIPAG.</p> <p>The general consensus is that as the IIPAG's understanding of TfL is increasing, so is the cooperation and responsiveness of TfL project teams, with corresponding benefits in the operation and output of the review process.</p>

INTERNAL AUDIT CUSTOMER FEEDBACK FORM						
SUMMARY OF RESPONSES FOR 2012/13						
Quarter 1						
<p>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 conducted an assignment in your area and would be grateful if you could complete this customer feedback questionnaire, <b>and return it to us by email</b>. This will help us identify ways in which we can improve our service to the business. Please select the rating for our performance ranging from 1 (very poor) to 5 (very good) for the areas below. An additional 'Comments' section is provided for you if you wish to make any specific comments on what went well or could be improved, and on your overall opinion of the assignment conduct and usefulness.</p> <p>Your feedback will be shared with the audit team, and also summarised on a quarterly basis for the Audit Committee. We may contact you to discuss your feedback if we feel that gaining a better understanding of it would be beneficial.</p>						
<b>Customer Feedback Forms Sent (period 1 - 3) = 7</b>						
<b>Customer Feedback Forms Returned (period 1 - 3) = 3</b>						
		Very poor	Poor	Satisfactory	Good	Very good
	1	2	3	4	5	Total Score
<b>PLANNING AND TIMING</b>						<b>3.7</b>
1) The assignment timing was agreed with me and there was appropriate consideration of my other commitments as the work progressed	0	0	1	0	2	
2) The assignment was completed and the report issued within appropriate timescales	0	0	3	0	0	
<b>COMMUNICATION</b>						<b>4.0</b>
3) Communication prior to the assignment was appropriate, including the dates and objectives	0	0	0	2	1	
4) Throughout the assignment I was informed of the work's progress and emerging findings	0	0	1	2	0	
<b>CONDUCT</b>						<b>4.3</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	2	1	
6) The Internal Audit team acted in a constructive, professional and positive manner	0	0	0	2	1	
<b>RELEVANT AND USEFUL ADVICE AND ASSURANCE</b>						<b>4.5</b>
7) A fair summary of assignment findings was presented in the report	0	0	0	1	2	
8) Assignment recommendations were constructive, practical and cost-effective	0	0	1	0	2	
9) My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations	0	0	0	1	2	
<b>Overall assessment of the assignment</b>						<b>4.1</b>
Other comments including suggested improvements and areas of good performance:						
<p><i>"As we have moved into an electronic environment for tendering and evaluation the audit team may want to review their approach to the requirement for paper based evidence. Suitable training may be required in order to fully understand some of the e-tendering systems functionality and the processes put in place."</i></p>						