

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: INTERNAL AUDIT ANNUAL REPORT 2008/09**

**DATE: 10 JUNE 2009**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to summarise Internal Audit activity for the year ended 31 March 2009, to account for the use of resources and provide an opinion on the internal controls as required by the CIPFA Code of Practice for Internal Audit in Local Government.

**2 BACKGROUND**

2.1 Based on the work we have 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) external expert reviews as part of the project approval process;
- (b) the work of other management assurance teams;
- (c) the result of the Use of Resources assessment by the external auditors;
- (d) a review of the Control Risk Self Assurance exercises within TfL; and
- (e) a review of the Statements of Control completed by London Underground.

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

2.3 There have been no matters arising from any of the work we have completed which require to be brought to the attention of the Audit Committee.

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

2.5 In addition, using assurance gained from our audit work on governance matters and the specific review carried out on the preparation of the Statement of Governance, we can conclude that TfL's Code of Governance, including internal control, is adequate and effective.

**3 WORK DONE**

**Introduction**

3.1 Internal Audit work falls into two main areas namely Business and Security audits as set out in the Audit Plan and Fraud Awareness, Prevention, Detection and Investigation. In addition, we provide advice on controls and processes

both via reviews and by attendance at working groups. The sections below explain the work that has been done in these areas in the past year.

**Business and Security Audits**

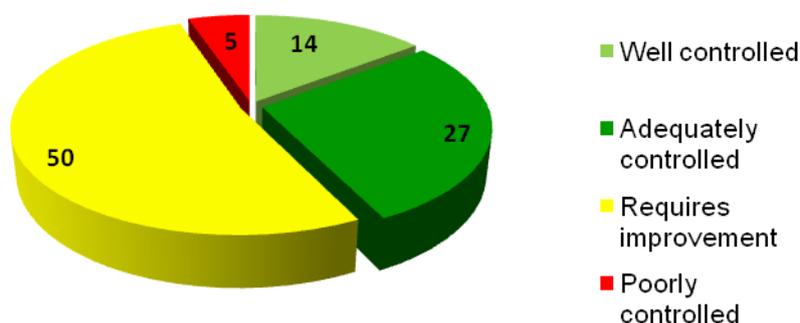
- 3.2 In any year our Audit Plan can change significantly as projects and procurements are cancelled or deferred and new or changing risks take priority. For this reason we use a “rolling” plan which means we confirm our audit schedule on a quarterly basis although we have a view as to the work we aim to complete during the next twelve months
- 3.3 Our Audit Plan for 2008/09 envisaged 6,051 days plus contingency of 605 making a total of 6,656. In the event we added 810 days at management’s request.
- 3.4 The proportion of time spent by business unit was:

	Actual 2008/09	Plan 2008/09
Group Wide	12.4%	22.0%
Finance*	29.1%	25.4%
General Counsel	3.0%	2.1%
Group Mktg & Comms	6.1%	1.7%
Surface Transport	21.9%	21.6%
London Underground	24.2%	21.3%
London Rail	3.3%	5.9%
	<u>100%</u>	<u>100%</u>

\*Finance and Group Services merged during the year.

- 3.5 The actual time analysed above includes time on audits brought forward from the 2007/08 plan. Actual time on audits from the 2008/09 plan in progress at the year end or deferred will be reported in next year’s annual report.
- 3.6 A number of audits in the 2008/09 Audit Plan were still in progress at 31 March. We also completed some audits carried forward from the 2007/08 Audit Plan during the year. Our interim conclusions on work completed during the year are set out in the chart below.

### Reports 2008/2009 - Interim Conclusions



- 3.7 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.

#### **Other Work**

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

One London Steering Group

Your IM Business Sponsor Group meeting

IM Funding Board

IM Steering Committee

IM Service Continuity Board

SAP Access Controls Project Board

SAP Real Estate Project Sponsor Board

SAP Access Controls Project Board

SAP Summit Meeting

Performance Review Process/ Senior Manager Reward Framework Project Board

Project Review Group

Project Breakthrough Steering Forum

Thames Gateway Bridge Project Board

HRS Document Management Project Board

Pre-Employment Screening Project Board

BSG Meeting

OCR Cost Conscious Culture Workstream meeting

OCR Programme Board

Crossrail Liaison Group

Document Management Project Board meeting

- 3.9 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.

### **Control Risk Self Assurance (CRSA)**

- 3.10 Control Risk Self Assurance is a process that enables management to assure themselves that key controls are operating across a whole process. It can reduce, but not eliminate, the need for internal audit. The team managing the CRSA process transferred to the Corporate Governance team during the year and it was agreed that the reporting from the process should be directed to the Chief Finance Officer. However, the CRSA returns are still reviewed by Senior Audit Managers to ensure they are in line with audit findings during the year and to ensure the assurance gained is taken into account for the internal audit opinion. Any differences are discussed and resolved. LU also has a 'statements of internal control' process which complements CRSA and is similarly subject to Internal Audit review

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

- 3.11 During the year a total of 39 fraud awareness sessions, including two identity documentation verification training sessions, were delivered to a total of approximately 460 members of staff. A further 263 people successfully completed the online introductory fraud awareness training package, Fraud-i, which was launched in 2008/09 and placed on the organisation's e-learning zone.
- 3.12 We also held the first TfL Fraud Awareness week in December and it is planned that this will be an annual event. The event included publicity with posters and static stands at ten head office buildings and also articles placed in internal publications. During the week we distributed approximately 3000 leaflets to TfL staff advising them about protecting the organisation, and themselves, from fraud and publicising the Safecall anonymous reporting line facility.
- 3.13 Our forensic data analysis capability continues to be enhanced and we have procured a new data extraction tool to assist in both our detection and investigation work. In addition our Forensic Data Analysts have worked with the Oyster desk to develop a fraud detection capability.
- 3.14 We also held two fraud risk workshops with Group Procurement and Financial Shared Services. Additional workshops will be held during 2009/10.
- 3.15 There were 64 new cases reported during 2008/09, compared to 102 cases in 2007/08. The significant reduction is due to the tail off of referrals from the 2006 National Fraud Initiative (NFI). Last year we received 52 reports from the NFI exercise, whilst this year we received nine. We expect to begin receiving

referrals from the 2008 exercise shortly.

**The fraud investigations of note during 2008/09 were:**

- 3.16 Identity Theft and Counterfeit Passports. We have conducted, and continue to investigate a number of cases of identity theft and the use of false documentation, including passports. We conducted passport checks at contractor training courses and ten individuals were found to be in possession of forged documents. These cases were subsequently passed to the British Transport Police for further investigation. In another case, a bus driver working for East Thames Buses was found to be a former employee of another bus company but using a different name, date of birth and national insurance number. The member of staff resigned and in addition was charged with and pleaded guilty to two counts of fraud at the City of London Magistrates Court where she received a suspended sentence, community service, supervision order and was ordered to pay costs. We continue to target the use of forged documentation and additional controls have been put in place to minimise this risk.
- 3.17 Counterfeit Bus Saver Tickets. A newsagent was arrested in connection with the sale of counterfeit tickets and other offences. He appeared at Southwark Crown Court and was sentenced to three months imprisonment suspended for two years, 100 hours community service and ordered to repay TfL £13,000 compensation. With the expansion of sale outlets for Oyster cards, Bus Saver Tickets have now been withdrawn from use.
- 3.18 Incorrect payment to supplier. A former TfL temporary employee and her accomplice received jail sentences after they had both been found guilty of fraud and money laundering offences at Southwark Crown Court following a joint TfL/police investigation. The agency worker was employed in the Finance department of TfL in November 2006 when she altered the bank account details of a supplier in an attempt to steal £65,000. She was sentenced to 12 months in prison (suspended for two years) and 150 hours unpaid community work. Her accomplice, who received the stolen money, was sentenced to a year in prison.
- 3.19 Customer Charter Case. This case related to fraudulent claims for Customer Charter Refunds and was another joint investigation between TfL and the police officer seconded to TfL Internal Audit. A solicitor from north London obtained £3,885.70 in fraudulent Customer Charter Refund claims. The solicitor initially denied all offences but finally at court she pleaded guilty to one count under the Fraud Act 2006. She was given a Community Order to complete 200 hours unpaid community work and ordered to pay back to TfL the £3,885.70 in funds received through her fake claims, £4,000 in court costs to TfL and a further £4,000 costs to the Fraud Prosecution Service
- 3.20 Fraudulent Business Claim. This is a long running case dating back to 2004 and concerns a "business disturbance" claim from a company (now in Administration) for £1.6m following the purchase of land for the East London Line Extension project. The investigation found prima facie evidence of a criminal conspiracy to defraud TfL. In April this year the company Director was found guilty of submitting documents known to be false for the purpose of extracting part of a £1.6m claim for extinguishment of business and was sentenced to 18 months' imprisonment suspended for two years.

3.21 Staff Oyster Fraud. This case concerns staff fraud issuing “nil value” Oyster cards. The customer would be charged the full price for an Oyster card but the ticket staff would steal that money and enter the transaction on the system as a nil value sale. Following a detailed data analysis and investigation, a joint BTP/TfL operation took place at Canning Town LU station resulting in the arrest of one member of staff. He appeared at Southwark Crown Court and pleaded guilty to nineteen specimen counts of fraud and asked for a further 363 offences to be taken into consideration. He received a total of nine months’ imprisonment, suspended for two years. He was also ordered to pay TfL compensation of £10,186, given two years’ probation and has to undertake 200 hours of unpaid community work.

3.22 The disposal of cases throughout the past year (previous year’s totals in brackets) is set out in the table below.

	<b>Investigations</b>	
In Progress at 1 Apr 08		<b>54 (56)</b>
New Since 1 Apr 08		<b>64 (102)</b>
Closed since 1 Apr 08	No Crime/ Offence established	<b>50 (59)</b>
	Disciplinary Action Taken	<b>8 (15)</b>
	Police/ Judicial Action Taken	<b>21 (30)</b>
	Sub Total	<b>79 (104)</b>
In Progress at 31 Mar 09		<b>39 (54)</b>

3.23 The 64 new investigations consist of 43 (31) fraud cases, 13 (21) reports of theft and 8 (50) ‘other’ types of cases.

3.24 Reports were received from the sources indicated in the table below.

<b>Source</b>	<b>2007/08</b>	<b>2008/09</b>
Internal Audit	0	0
Internal Control	31	12
Staff Member	4	29
Member of Public	6	5
Law Enforcement Agency	2	4
Anonymous	7	5
National Fraud Initiative	52	9
<b>Totals</b>	<b>102</b>	<b>64</b>

## **4 RESOURCES**

### **Business and Security Audit**

- 4.1 2008/09 has been generally more stable than 2007/08, with fewer leavers and the vacancies with which we started the year being filled. Significant developments in the year have been our take over of the management of the Metronet audit team and our preparations for increased volume of Crossrail audit work that will be required as the project develops.
- 4.2 The Head of Risk Management and the Audit Manager – Corporate Governance transferred out of Internal Audit during the year and now report to the Director of Corporate Governance.
- 4.3 We recruited a Senior Audit Manager for Crossrail shortly after the year end. During 2009/10 we plan to recruit additional auditors to enable us to handle the growing volume of work associated with Crossrail. The costs of the internal audit resource will be recharged to Crossrail.
- 4.4 One audit manager vacancy arose during the year, which we were pleased to be able to fill through an internal promotion.
- 4.5 The six auditors from the former Metronet Corporate Audit team, for whom we have had management responsibility since October 2008 following the departure of the Metronet Chief Internal Auditor, are expected to transfer fully to TfL in 2009/10.

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

- 4.6 Our Fraud Investigations Manager took early retirement in 2008/09 and was replaced in September. Our seconded Metropolitan Police Service (MPS) Detective also retired in 2009 and has been replaced by another experienced Detective from the MPS Economic Crime Unit.
- 4.7 The vacancy for a Forensic Data Analyst was filled in May this year and there are no current vacancies in the fraud team.

### **Staff Training and Development**

- 4.8 During 2007/08, we introduced a training strategy setting out the standards we required for staff to maintain existing professional qualifications and to ensure that all staff received sufficient continuous training in internal audit and fraud investigation to keep them up to date with best practice. All of our joiners into audit positions who do not have previous audit experience must complete the

Institute of Internal Auditor's Certificate of Internal Audit during their first year in the department.

- 4.9 We have continued to take advantage of free seminars provided by professional bodies and discounted places offered at conferences where we are providing a speaker. We also have an ongoing arrangement with an external trainer in Audit and Risk methodologies to provide in house courses at lower cost than external ones.
- 4.10 We continually monitor training to ensure all staff are achieving the requisite standard and also to monitor costs. As we have been able to increase our use of free or discounted courses we have underspent our training budget for the last two years and have made a permanent reduction in the budget going forward. We remain confident that the training provision is sufficient for us to maintain our high standard of professionalism.

### **Co-Sourcing**

- 4.11 We continue to use Ernst & Young to supplement our resources under our existing contact although to a lesser extent than in previous years. 3% of time charged to audits in 2008/09 was provided by them (7.8% in 2007/08). This has resulted in an underspend against budget. We have not needed to use any of the firms on our back-up framework during the year. We anticipate maintaining our use of co-sourcers in 2009/10 at a similar level which should result in a further underspend against budget.
- 4.12 The co-sourcing contract expires in March 2010 and we are considering our requirements in preparation for the re-let. Although we will continue to require specialist skills and support from time to time, as we are now better resourced than when we let the contract in 2005, we anticipate a reduced need for general audit staff from the co-sourcer and this will lead to a reduced budget requirement.

## **5 INTERNAL AUDIT PROCESS**

- 5.1 Following the update of the Internal Audit Manual last year, the Fraud Manual and our Programme and Project Audit Methodology are being reviewed and updated this year.
- 5.2 The Contract Audit Toolkit, which was completed last year, has been highly commended in the Cliff Nicholson Awards for 2009. This is a CIPFA award for innovation in audit practice.

## **6 BENCHMARKING AND NETWORKING**

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

- 6.2 The Director of Internal Audit belongs to a number of Internal Audit networks, which frequently brings her into contact with other Heads of Audit to discuss current topics.
- 6.3 Members of the team also belong to the Institute of Chartered Accountants in England and Wales' Internal Audit and Corporate Governance Committees; the CIPFA Procurement and Contract Audit Forum; the Working Group of the IIA Technical Committee; the Association for Project Management (APM) Specific Interest Group on Project & Programme Assurance; the APM Audit and Performance Review Committee; the London Fraud Forum and the National Fraud Fora.

**7 CUSTOMER FEEDBACK**

- 7.1 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. A copy of the questionnaire is included as an Appendix.
- 7.2 Our return rate for feedback forms has increased to 55 per cent from 48 per cent in the last two years. The majority of respondents are satisfied with the way we carry out our work with the commonest criticisms being around understanding the scope of the audit and the length of time it can take to complete the fieldwork and issue the draft report for discussion. The summary of scores is set out in the table below.

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
2005/06	56%	40%	4%	0%
2006/07	38%	54%	7%	1%
2007/08	35%	56%	7%	2%
2008/09	32%	56%	10%	2%

- 7.3 A more detailed analysis is attached as an Appendix.
- 7.4 We received eight 'Strongly disagreed' scores across 88 forms returned. 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.

**8 RECOMMENDATION**

- 8.1 The Audit Committee is recommended to NOTE this report.

**9 CONTACT**

- 9.1 Contact: Mary Hardy, Director of Internal Audit  
Phone: 020 7126 3022

## APPENDIX

### Transport for London Internal Audit

CFF sent (period 1 – 13): 88  
CFF returned (period 1 – 13): 55

#### **Customer Feedback Form – SUMMARY OF RESPONSES FOR 2008/09**

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

Scale (please tick one):

1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 = Strongly disagree

	<b>Question</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>1</b>	Communication prior to the audit work was appropriate and I was aware of visit dates and objectives before the work started	<b>26</b>	<b>30</b>	<b>3</b>	<b>0</b>
<b>2</b>	Throughout the audit process I was kept informed of the work being done and issues arising	<b>13</b>	<b>36</b>	<b>8</b>	<b>1</b>
<b>3</b>	Internal audit staff demonstrated a good understanding of the business and associated risks (or took the time to develop such understanding during the audit process)	<b>18</b>	<b>32</b>	<b>7</b>	<b>3</b>
<b>4</b>	Internal audit staff demonstrated a pragmatic and commercial approach to developing solutions to issues identified during the audit	<b>12</b>	<b>40</b>	<b>6</b>	<b>1</b>
<b>5</b>	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses	<b>16</b>	<b>33</b>	<b>7</b>	<b>3</b>
<b>6</b>	Internal audit staff acted in a professional manner throughout the assignment	<b>28</b>	<b>27</b>	<b>5</b>	<b>0</b>

7. What did we do best? **Comments included:-**

*“The greatest strength was the conduct of auditor as this was professional throughout....this builds confidence.”*

*“I think allocating audit contacts who understand our area of delivery added to the process considerably.”*

*“Excellent analysis of the ‘problem’ and the related issues. Provided possible solutions and a way forward.”*

*“Good communication and questioning throughout the audit process and clear involvement of the relevant officers within the team in developing the recommendations and what were practical solutions/next steps.”*

*“Competent, communicative and articulate team.”*

*“The audit has allowed us to progress items that were identified by us previously but not taken up by the business.”*

8. What could we have done better? **Comments included:-**

*“Appreciate the constraints under which the work was being prepared.”*

*“The only thing I would say is the commencement meeting could have been better structured and better focussed if it had dealt with the one project as later meetings did.”*

*“Engage with most appropriate person at outset...Give pragmatic solutions to identified persons”.*

*“The audit report seems to have taken a long time to be issued between the drafts and final.”*