

**Date: 19 June 2013**

**Item 10: Internal Audit Annual Report 2012/13**

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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 2013, to account for the use of resources and provide an opinion on the internal controls as required by the CIPFA Code of Practice for Internal Audit in Local Government.

**2 Recommendation**

**2.1 The Committee is recommended to note this report.**

**3 Audit Opinion**

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

- (a) reviews carried out as part of the Corporate Gateway Approval Process (including the work of the Independent Investment Programme Advisory Group);
- (b) the work of other management assurance teams;
- (c) a review of the Control Risk Self Assurance exercises within TfL; and
- (d) the assurance letters prepared for HSE, Resilience, and Games Readiness,

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

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

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

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

## 4 Work Done

### Introduction

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

### Audit assurance

4.2 In any year, the Audit Plan can change significantly as projects and procurements are revised or deferred and new or changing risks take priority. For this reason, we use a "rolling" plan which means we confirm our audit schedule on a quarterly basis, although we have a view as to the work we aim to complete during the next twelve months.

4.3 The proportion of Internal Audit time spent by business area was:

	Actual 2012/13 (%)	Plan 2012/13 (%)
Pan TfL	45.7	44.4
Rail and Underground	7.2	8.9
Surface Transport	11.7	12.7
Corporate	20.9	18.4
Crossrail	11.3	12.4
Other (LTM/ Pension Fund)	3.2	3.2
	<u>100</u>	<u>100</u>

4.4 The actual time analysed above includes time spent on audits brought forward from the 2011/12 plan.

4.5 The planned and actual time allocations are similar, with slightly lower proportions of time allocated to Rail and Underground and Surface Transport, and higher proportions on Pan TfL and Corporate.

4.6 A number of audits in the 2012/13 Audit Plan were still in progress at 31 March. We also completed some audits carried forward from the 2011/12 Audit Plan during the year. The number of Interim Audit Reports and other outputs, including advisory reports and memorandums, issued during the year and in 2011/12 are set out in the

table below. The total number of outputs during the year was the same as in 2011/12, despite the impact of the Games 2012, although a higher proportion of outputs were memorandums and advisory reports rather than Audit Reports. This reflects, in part, the high volume of change programmes currently underway across TfL, where we often carry out work on a real time basis where issue of a memorandum is an efficient way of providing assurance on a timely basis. We are finding that real time and consultancy type work is generally welcomed by the business, whilst still delivering effective assurance.

	Interim Audit Reports					Other Outputs (Advisory Reports/ Memos)	Total
	Well Controlled	Adequately Controlled	Requires Improvement	Poorly Controlled	Total		
2012/13	5	18	24	3	50	43	93
2011/12	12	17	39	2	70	23	93

- 4.7 Overall, our work indicates that the standard of control remains at a similar level to 2011/12, although three reports were issued with ‘poorly controlled’ conclusions compared to two in the previous year.
- 4.8 There are no trends highlighted by the ‘Poorly Controlled’ reports, although two of the three do relate to HR matters, namely the audits of Agency Temporary Worker Processes and of IM controls over the Taleo Recruitment System. The third report was of Consultant Invoice Management in Crossrail.
- 4.9 The figures in the table above do not include the HSE and Technical Audit Reports issued by the former LU HSE team, which transferred to Internal Audit in January 2013.
- 4.10 A more detailed summary of audit work carried out during the year can be found in Appendix 1.
- 4.11 We follow up previously issued interim audit reports to confirm that agreed management actions have been implemented, and issue a final audit report of our findings. Follow up audits and resulting final reports indicate that management action plans agreed as part of the audit process are being completed effectively and on a timely basis. Out of 63 final audit reports issued, there were only three that we were not able to close as a result of actions being incomplete.

## **Other Work**

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

- (a) Assurance Delivery Group;
- (b) IM Steering Group;
- (c) SAP GRC Governance Council;
- (d) Games Transport Safety and Security Board;
- (e) Value Group/ Efficiencies, Savings, Transformation and Revenue Group (ESTaR);
- (f) Accommodation Strategy Implementation Programme Board;
- (g) Resilience Steering Team;
- (h) Crossrail Integrated Assurance Group;
- (i) Crossrail Fraud Risk Assurance Group; and
- (j) Commercial Steering Group.

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

## **Other Assurance Providers**

4.14 Throughout the year, we have received regular updates on the assurance work carried out by the LU and Tube Lines HSE audit functions and on project assurance work carried out as part of the CGAP process, including the work of IIPAG. Copies of reports prepared by these teams have been shared with us as required. A summary of this work has been included in the Director of Internal Audit's quarterly reports to the Audit Committee, and it has been taken account of in arriving at the overall conclusion on the effectiveness of TfL's control environment. The LU HSE function transferred to Internal Audit with effect from January 2013. Since the year end the Tube Lines audit function has also transferred to Internal Audit.

4.15 In Crossrail, there are also a number of other teams providing assurance over delivery of the project, and whose work is taken into account in reaching an overall view on control effectiveness in Crossrail:

- (a) a compliance and contractor audit function, whose work is managed by the Senior Audit Manager – Crossrail, which carries out technical audits of compliance with the Crossrail Management System, together with Quality and Environmental audits of contractor activities;

- (b) a contractor commercial review function; and
- (c) a contractor Health and Safety audit function.

### **Control Risk Self Assurance (CRSA) including assurance letters**

- 4.16 CRSA is a process that enables management to assure themselves that key controls are operating across a whole process. It can reduce, but not eliminate, the need for internal audit. The CRSA returns are reviewed by Senior Audit Managers to ensure they are in line with audit findings during the year and to ensure the assurance gained is taken into account for the internal audit opinion. Any differences are discussed and resolved. LU also has a 'Statements of Internal Control' process which complements CRSA and is similarly subject to Internal Audit review.
- 4.17 Separately to the CRSA process, TfL also produces annual assurance letters for HSE and Resilience, which are also reviewed by Internal Audit.
- 4.18 In the run up to the Games 2012, TfL also operated a Games Assurance Letters process to assess the organisation's operational readiness for the Games.

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

- 4.19 We conducted a number of fraud awareness sessions during the year including seven sessions to TfL staff and four to Tube Lines personnel. We have also continued to roll out a series of Fraud Risk Workshops to Tier One contractors working on the Crossrail project and, to date, we have completed 12 such workshops, have another one planned and a further six to be arranged. We also gave a presentation to the TfL Accountants' CPD training day in November on fraud risk management and a similar presentation to the TfL Group Business Planning and Performance Team.
- 4.20 We also worked closely with the Bank of England in providing advice and material to TfL cash handlers regarding counterfeit cash awareness particularly in the run up to and during the Games.
- 4.21 This year's Fraud Awareness Week took place during November and included awareness activity at Crossrail and Tube Lines as well as TfL. As part of this campaign, we placed on the TfL Intranet an article entitled "The Twelve Frauds of Christmas" produced by the National Fraud Intelligence Bureau. We have received some very complimentary feedback on this campaign.
- 4.22 We have conducted further data analytical exercises both in support of ongoing investigations and in our preventative work to provide assurance that processes are not being abused for fraudulent reasons. During the year we have conducted such exercises to provide assurance during the Games period and at Crossrail.

4.23 Where applicable, we always take steps, in liaison with the business to ensure that appropriate improvements are made to internal controls to prevent frauds from recurring.

4.24 There were 30 new investigations started during 2012/13, and 19 cases brought forward from 2011/12. There were no significant trends identified from our investigations.

4.25 Closed investigations of note were:

- (a) **Fraudulent Refunds on the Barclays Cycle Hire Scheme.** Following incidents of fraudulent refunds to various Cycle Hire customer accounts totalling £46,700, between October and December 2010, a joint TfL/Police investigation resulted in the arrest of 11 people, including three (now former) Serco employees. Subsequently, nine people (including the three ex Serco employees) pleaded guilty to the offences. In June 2012, the two main figures received custodial sentences of 9 months and 6 months respectively. They were given full 'discount' for pleading guilty and other reasons. The other seven received various punishments from suspended sentences to community orders, community service (650 hours in total) and curfews; and
- (b) **Stolen credit cards used to purchase Oyster products.** It was reported that deductions had been made on a customer's credit card for Oyster card products of which they had no knowledge. A number of Oyster cards purchased at different London Underground Stations and the credit card had then been used to add value to these cards via the internet. The Fraud Team carried out a joint revenue exercise with BTP which resulted in three suspects being arrested. Two subsequently received a Police Caution and the other was charged under the Fraud Act.

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

	Investigations	
In Progress at 1 April 2012		<b>19 (13)</b>
New since 1 April 2012		<b>30 (41)</b>
Closed since 1 April 2012	No Crime/ Offence established	<b>8 (22)</b>
	Disciplinary Action Taken	<b>1 (3)</b>
	Police/ Judicial Action Taken	<b>15 (10)</b>
	Sub Total	<b>24 (35)</b>
In Progress at 31 March 2013		<b>25 (19)</b>

4.27 The 30 new investigations consist of 24 (25) fraud cases, 5 (14) reports of theft and 1 (2) 'other' types of case.

4.28 Reports were received from the following sources:

<b>Source</b>	<b>2012/13</b>	<b>2011/12</b>
Internal Audit	1	0
Internal Control	7	7
Staff Member	12	15
Member of Public	6	5
Law Enforcement Agency	1	3
Anonymous	3	1
National Fraud Initiative	0	10
<b>Totals</b>	<b>30</b>	<b>41</b>

## **5 Resources**

### **Staff**

- 5.1 With effect from 1 January 2013, the LU HSE audit function consisting of an audit manager and 10 auditors transferred into Internal Audit, taking the department's overall budgeted headcount to 52. Subsequent to the year end, the Tube Lines audit functions (six staff in total) have also transferred into Internal Audit.
- 5.2 There were few other staff changes during the year. One vacant Internal Auditor post was filled. One security auditor left towards the end of the year to take up a more senior post in another organisation. The resulting vacancy has since been filled following a recruitment process.

### **Staff training and development**

- 5.3 Our training strategy sets out the standards we require for all staff both to maintain their existing professional qualifications and to ensure they receive sufficient continuous training in internal audit and fraud investigation (as appropriate) to keep them up to date with best practice. All of our joiners into audit positions who do not have previous audit experience must complete the IIA's Certificate of Internal Audit during their first year in the department.
- 5.4 During the year two members of the department have passed their examinations for the Institute of Risk Management's (IRM's) International Certificate of Risk Management qualification. One of these has subsequently taken up a secondment into a risk manager role in the business.
- 5.5 We monitor training to ensure all staff are achieving the requisite standard. We have kept within our reduced training budget through judicious selection of courses, including making use of free or discounted courses where possible, and are comfortable that the training provision is sufficient for us to maintain our high standard of professionalism.

## **Co-sourcing**

- 5.6 A GLA-wide contract for Specialist Internal Audit Services with RSM Tenon 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.

## **6 Internal Audit Processes**

- 6.1 In accordance with CIPFA and IIA standards we carry out an annual internal review of the department's performance. In addition, usually every three years, we commission an external review of our performance. During 2012 KPMG carried out a review of TfL Internal Audit effectiveness. KPMG's previous review was in 2008. A report setting out the findings from KPMG's review was presented to the Audit and Assurance Committee in December. The report found that Internal Audit's methodologies and day to day processes were generally effective and commented positively on our 'direction of travel' with regard to the integrated assurance agenda. The report also sets out a number of areas for further development, some of which were already being progressed. Subsequently we have agreed an action plan to take forward the matters raised by KPMG, which was presented to the Audit and Assurance Committee in March.
- 6.2 We seek to continuously review and enhance our audit processes to ensure they are best practice and meet the needs of the business. During the year we introduced a revised format for our Interim Audit Reports incorporating, alongside some cosmetic changes, three levels of priority rating for audit issues, replacing our former approach of classifying issues as 'significant' or 'other'. This was consistent with one of KPMG's recommendations.

## **7 Integrated Assurance**

- 7.1 Following on from the progress made last year in introducing an integrated approach to assurance, there have been a range of further developments and successes achieved in the past year.
- 7.2 In March, the second annual Integrated Assurance Plan (IAP), covering all Internal Audit and HSE Audit work planned for 2013/14, was approved by this Committee.
- 7.3 Responsibility for HSE Audit work (except that for Tube Lines) was transferred to Internal Audit in January, and Tube Lines HSE Audit subsequently transferred to Internal Audit early in 2013/14 as a part of the overall integration of Tube Lines staff and activities into TfL. Work is underway to align the systems and processes used by both types of audit, to achieve consistency.
- 7.4 Following this merger of audit functions, the vast majority of audit activity will be controlled in one place and delivered by a single integrated team. Increasingly, senior management will interface with a single function for all audit work.

- 7.5 Some audit activity does remain embedded within parts of Surface Transport and Rail & Underground, and we are exploring ways in which these can be better integrated, perhaps by incorporating oversight by Internal Audit.
- 7.6 Regular liaison meetings between Internal Audit and Project Assurance continue, as do efforts to work more closely and collaboratively with IIPAG.
- 7.7 In order to assist Management in achieving a better understanding of all of the sources of assurance over TfL's risks, and the quality of that assurance, we have been working with them to develop 'assurance maps'. Assurance maps for HR and IM were completed in 2012/13, and these are now being used as management tools by their senior management teams. Furthermore, the maps assisted in the development of the IAP for 2013/14. Work on assurance maps for Finance and Project Assurance are underway.
- 7.8 'Ownership' of assurance by TfL's senior managers is critically important. In part, this has been achieved through greater director involvement in the development of the IAPs, and by obtaining Operating Board sign-off of the IAP prior to submission to the A&AC. However, we have also started to report progress with delivery of the IAP to the Operating Boards on a quarterly basis.

## **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 meet and work with other Internal Auditors and Fraud Investigators as well as attending and speaking at conferences relevant to our professional and business needs. The department has memberships of the Chartered Institute of Internal Auditors (IIA), CIPFA and the Association of Certified Fraud Examiners among others, which means we receive copies of publications, newsletters and updates from these bodies that assist in ensuring that we are up to date.
- 8.2 Members of the team also belong to a range of external bodies, including the London Audit Group; the Working Group of the IIA Technical Committee; the Information Systems, Audit and Controls Association; the Association for Project Management (APM) Specific Interest Group on Assurance; the APM Audit and Performance Review Committee; the Institute of Risk Management; the Institute of Occupational Safety and Health; the Security Institute; the London Fraud Forum; the National Federation of Fraud Forums; the 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 copy of the questionnaire, including a detailed analysis of the results, is included in Appendix 2.

9.2 We introduced a new format for the questionnaire from the start of the year, with a revised set of questions designed to be more clearly focused on key areas of performance, and with a five point rating scale instead of the previous four. Consequently, it is not possible to present directly comparative figures this year.

9.3 The return rate for feedback forms in 2012/13 was 49 per cent (2011/12: 48%). The summary of scores received in the year is as follows:

	Very good %	Good %	Satisfactory %	Poor %	Very poor %
2012/13	35	41	18	5	1

9.4 For comparison, the summary of scores for 2011/12 and the previous two years on the old rating scale is set out in the table below.

	<b>Strongly Agree</b> %	<b>Agree</b> %	<b>Disagree</b> %	<b>Strongly Disagree</b> %
2011/12	46	49	5	0
2010/11	37	51	11	1
2009/10	40	51	8	1

9.5 The majority of respondents are satisfied with the way we carry out our work and, having regard to the revised scoring mechanism, the ratings appear to be broadly in line with the prior year. All feedback which is less than satisfactory is followed up by the Director of Internal Audit to ensure the concern is understood, discussed with the audit team and lessons learned where appropriate.

**List of appendices to this report:**

Appendix 1 – Overview of Internal Audit Work 2012/13

Appendix 2 – Customer Feedback Form – Summary of Responses for 2012/13

**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 - 2012/13**

**1 BACKGROUND**

1

- 1.1 The 2012/13 Integrated Assurance Plan highlighted some key themes that would be covered by our work during the year. The following paragraphs set out our work done in respect of those key themes and in other areas.

**2 EFFICIENCIES DELIVERY**

- 2.1 In October 2011 TfL engaged Deloitte to undertake a 'Fresh Eyes Review' of the Savings and Efficiencies programme to provide an independent view of the deliverability and overall status of the savings then forecast and the level of risk attached to them. At the request of management, in advance of a second independent review by PwC, we carried out a high level review of the current status of the programme with particular focus on the progress that has been made with addressing the issues identified during the Fresh Eyes Review. Whilst significant steps had been taken to address the points raised by the Fresh Eyes Review, various issues remained outstanding and we noted a number of areas where improvements could be made to increase the integrity and validity of savings and efficiencies claimed.
- 2.2 Internal Audit is providing input and information into the current review being conducted by PwC through meetings and discussions with the review team. We plan to carry out further work during 2013/14 to ensure that any actions arising out of the PwC review are being appropriately addressed.
- 2.3 We also carried out a review, requested by management, of the adequacy, effectiveness and sustainability of specific elements of management proposals to introduce an efficiencies programme at The London Transport Museum. Our memorandum highlighted a number of areas in which the current plans could be strengthened along with some additional efficiency areas for consideration.

### **3 PROJECT AND CONTRACT MANAGEMENT**

- 3.1 We issued five audit reports in 2012/13, one consultancy report, and 12 memorandums. Three of the audit reports had an 'Adequately controlled' conclusion, and the remaining two were 'Well controlled'. The lower number of reports and increased number of memorandums issued this year compared with previous years reflected the growth in demand for audit work for which a memorandum output is more appropriate than a full audit report. Such audit work is typically of a real-time or consultancy nature, which can be very useful to the business, whilst still allowing us to provide valuable assurance.
- 3.2 The audit reports and memorandums result from a diverse mix of audits, including five of specific projects, procurements and contracts, and with the rest covering general project and contract management activities and processes.
- 3.3 One significant piece of work was our review of TfL's relationship with the Independent Investment Programme Advisory Group (IIPAG), which found that IIPAG had brought considerable benefit to TfL, but also noted a number of issues with the implementation of IIPAG and the way in which the group had engaged with TfL. However, we were pleased to recognise a growing view, by both TfL management and IIPAG members, that the relationships had improved significantly. We made a number of recommendations, which we will follow up on when auditing project assurance generally during 2013/14.
- 3.4 A particular area of interest for IIPAG is benchmarking. Following our audit of the use of benchmarking data in the Northern Line Signalling Upgrade project in 2011/12 (carried out at the suggestion of IIPAG), we carried out in collaboration with them a broader audit of benchmarking within Rail and Underground. We found this to be operating effectively. We will follow this with an audit of benchmarking across other parts of TfL in 2013/14.
- 3.5 TfL continues to develop self-assurance mechanisms and functions as 'second lines of defence'. This includes a new function within Rail and Underground providing assurance over costs incurred by TfL suppliers for which TfL is liable. At the request of management, we reviewed the establishment of this new function and its initial output, and found both to be satisfactory and likely to be of considerable value to Rail and Underground in the future.
- 3.6 An important output arising out of Project Horizon was the development of a Commercial Capability Improvement Programme (CCIP) comprising a number of work streams aimed at delivering enhanced commercial processes across TfL. We carried out a number of audits of elements of the CCIP, including reviews of the Category Management and Supplier Relationship Management work streams. We found that appropriate arrangements had been established to deliver the work streams, but both

were at an early stage and we plan to carry out further work in these areas in 2013/14. We have also carried out an audit of the high level CCIP programme delivery arrangements. Our report, issued since the year end, found that milestone delivery was being effectively managed, with milestones generally being achieved on time, but did identify a need for greater clarity over programme governance and benefits realisation.

- 3.7 Horizon also recommended investigating the benefits of adopting alternative resourcing models for certain activities, e.g. procurement and HR, including outsourcing. In response, TfL has been 'market testing' some of these, to explore possibilities. We audited this market testing, and found that the market had been engaged with effectively, and management were well-placed to make use of the outcome within future decision-making.
- 3.8 Three other commercial areas that we audited included the management of compensation events within Rail and Underground, management of Facilities contracts, and electronic catalogue management. All three concluded that effective controls are in place. We also audited the project to deliver a new pan-TfL document and records management system; an improved process for the procurement of bus contracts; and the management of contracts for archives and records services, and for British Transport Police building maintenance. At the end of the year, we were completing an audit of the manufacture and supply of the New Bus for London. None of these audits gave rise to any significant issues.
- 3.9 The consultancy report issued during the year was the second in a series of reviews of performance management regimes within Surface Transport that have been requested by the Chief Operating Officer. The first of these, covering London Streets, was completed in 2011/12. This review covered Congestion Charging and Traffic Enforcement, and we concluded that the regime was robust and effective, and could be used as a model for other areas. A third review, of Taxi and Private Hire, was in progress at the year end. A fourth review covering Cycle Hire, is included in our plan for 2013/14. Outcomes of these reviews are mapped against a maturity model that we have developed.
- 3.10 We have also developed a maturity model for assessing the management of fraud risk in projects and contracts. This year, we assessed one Corporate and two Surface Transport contracts against this model, and commenced a third Surface Transport contract. Over the course of time, we plan to select projects and contracts from across TfL, to develop an overall picture of fraud awareness in projects and contracts across the organisation.
- 3.11 As well as those mentioned above, audits under way at the end of the year included: Implementation of a single project management framework for TfL; LU/CRL working relationships; Procurement of the new DLR franchise; Procurement of the new Professional Services Framework; Cumulative benefits of projects on the TLRN, and Development of the

Commercial Development business plan. We are also reviewing how poor performance is managed for a sample of Surface Transport contracts.

## **4 IM GOVERNANCE**

- 4.1 There have been no significant changes in the IM leadership team or to the IM organisational structure during 2012/13. This is the first year of stability within this part of the business within the last six years. This time has been used to consolidate previously separate Your IM and LU IM practices, to review existing processes and develop new ones for use by the consolidated work force.
- 4.2 We have continued to take part in steering committees, programme board meetings and participate in project meetings. This affords the opportunity to provide challenge, understand the implications of organisational changes and observe governance processes in action. In addition we have undertaken more real time audit work, providing assurance that the developing processes are properly managed, the right people are engaged and that good practice has been used.
- 4.3 In 2012/13, we issued 13 interim audit reports and ten memoranda related to different aspects of IM governance. Of the reports, one was concluded as 'poorly controlled', nine as 'requires improvement', two were 'adequately controlled' and one was 'well controlled'. This is one fewer 'poorly controlled' report than in 2011/12, and although it is too soon to see this as a trend, it is in line with our overall view that there has been some stabilisation/ improvement in the IM control environment this year.
- 4.4 The audit report rated as 'poorly controlled' was in respect of the 'Taleo Recruitment System'. This report identified a number of significant control weaknesses related to compliance with the Data Protection Act (DPA) 1998, satisfaction of the user requirements identified in the procurement phase, monitoring and verification of the defined service levels, over-reliance on contracted staff and lack of process documentation. In addition, the report noted absence of a user access policy that had resulted in a large number of active Taleo accounts and weak password logon parameters. Since the year end, we have carried out a follow-up review, which has confirmed that the agreed management actions have been implemented and the audit is closed.
- 4.5 Out of the reports concluded as 'requires improvement' the following three were among the more significant:
- (a) Our audit of SAP Authorisations and Segregation of Duties noted that the existing SAP risk matrices have not been reviewed since they were initially designed and the SAP roles were not considered by management to be an adequate representation of the required business access post Project Horizon. Whilst an initiative had

commenced to address this issue across the HR, procurement and finance functional areas, no formal commitment had been made in terms of timelines, stakeholders and resources. Since then, an approach has been agreed and milestone dates for each function are currently being finalised. Resources from each function have been identified to support the work. A follow up to ensure that management have implemented the recommended management actions is due by the end of June 2013.

- (b) Our audit of the Oracle System Upgrade in Tube Lines Limited outlined that there was a risk of unauthorised access to the Oracle database and applications as a significant number of database and application default accounts had remained active, some of which still had their default passwords unchanged. A follow up to ensure that management have implemented the recommended management actions is due by the end of June 2013.
- (c) We also carried out a review of IT controls ('logical access controls') over access to the critical Surface Transport applications to obtain assurance that they were operating effectively and efficiently and their security, availability and resilience during the Games 2012 met agreed company standards. This review raised a number of issues regarding resilience and logical access controls in relation to some of the systems. We subsequently completed a follow up review and confirmed that management has implemented all of the agreed actions in respect of these findings.

## **5 FINANCIAL CONTROLS**

- 5.1 As usual, our programme of audit work included a number of reviews of core financial control areas. We carried out an audit of the adequacy and effectiveness of controls over the general ledger. We concluded that this was adequately controlled.
- 5.2 During the year a revised Management Accounting process was introduced and, at the request of management, we carried out a real-time audit of the revised process, focussing on changes to the control environment in specific parts of the business. Our review found that significant progress had been made in establishing a more rigorous process that will enable the period end management accounts to be presented more accurately and on a timelier basis, but also identified some barriers to the continued progress of the project that will need to be resolved in the longer term. We plan to carry out a more comprehensive review of management accounting processes and a fixed assets audit during 2013/14.
- 5.3 We also carried out an audit of controls in place over business expenses and purchasing cards, which included follow up of our previous audit in 2011/12. We found that there had been improvement in this area since our previous audit. The Financial Services Centre (FSC) were proactive

in addressing any concerns raised and in making appropriate changes and improvements to their processes in areas where controls could still be improved further. Based on our findings we have concluded that the control environment over business expenses and purchasing cards was adequately controlled. Our report included some recommendations on how the process could be made more efficient.

- 5.4 We carried out two reviews in relation to revenue collection. At the request of management, we reviewed the financial requirements that are to be incorporated into the proposed contract specification for the London Roads User Charging (LRUC) and Traffic Enforcement Notice Processing (TENP) Future Options project. Our review confirmed that the key financial controls had been included, but also identified a number of areas where improvements could be made, which were incorporated into the specification.
- 5.5 We also reviewed the adequacy and effectiveness of controls over the Emirates Air Line revenue collection process. Our Interim Audit Report, issued after the year end identified a number of areas where there was a need for controls to be strengthened and management is taking forward an agreed action plan that will address the concerns.
- 5.6 We carried out a review of the controls over Treasury activities in TfL, covering controls operated within Group Treasury, the FSC and Group Financial Accounting and following on from our audit of Treasury Management Investments carried out in 2011/12. Our audit found that effective controls were in place and overall Treasury Management activities were adequately controlled.
- 5.7 We carried out a review aimed at providing assurance that effective controls were in place over payments to contractors on major projects in Surface Transport, following a similar audit in Rail and Underground in 2011/12. The audit identified a number of issues around payment due dates; project manager delegated authorities, payment certificates and compensation event communications. We concluded that controls over payments to contractors required improvement and management has agreed an action plan to address the issues identified.
- 5.8 Three further audits on London Transport Insurance (Guernsey) Limited, Estates Management and Local Implementation Plans were in progress at the year end.

## **6 GAMES DELIVERY**

- 6.1 In the run-up to the Games 2012, we audited the preparation of Games Assurance Letters, which were the mechanism by which TfL gave assurance to external stakeholders that TfL would deliver on its commitments. We found the process to be effective and made some recommendations to further strengthen the process.

- 6.2 We also reviewed processes for capturing actual costs of meeting various commitments to the ODA for specific Games-related projects and activities. We found that the team responsible for this was working well, but noted the importance of maintaining effective communication with the business to ensure all costs were captured.
- 6.3 In addition, during the Games, the Security Audit team worked in liaison with the Centre for Protection of National Infrastructure (CPNI) and acted as the main point of contact for corporate security issues outside of the operational environment. This included disseminating real time threat and risk updates received via CPNI and communicating intelligence and assessed threat levels to the TfL Games Leadership Team and wider TfL stakeholders. In addition, they monitored social media activity, investigating and then communicating potential suspicious online activity direct to the business owner. The team received specific praise for their work during the Games 2012 in a letter from a Deputy Assistant Commissioner of the Metropolitan Police Service, addressed to the Commissioner, in which she thanked TfL for its support with the Cross-sector Safety and Security Communications project.

## **7 HEALTH SAFETY AND ENVIRONMENT**

- 7.1 The HSE audit team undertook 60 audits in the year focusing on assurance of critical asset inspection and maintenance activities, processes for the design and delivery of new assets, compliance with and effectiveness of elements of the HSE management system and assurance of critical suppliers both pre and post contract.
- 7.2 33 of the audits were internal and focussed on LU management systems although a small number were undertaken in Trams. 27 of the audits were on direct suppliers.
- 7.3 The internal audits resulted in 51 management system non-conformances being identified which were corrected through agreed management action or changes to the management system. Analysis of these identified the most common causes of non-conformance were: lack of awareness of requirement by the person responsible; lack of capability to meet requirements including inadequate resources, lack of training, or responsibilities not being clear; and deficiencies in information management including access to and control of hard and soft copy information, distribution of information and suitability of IT systems.
- 7.4 A further 202 Observations were made relating to potential improvement opportunities which were acted upon. An analysis showed the most common observations concerned: improvement to low level management system documents (eg checklists, guidance documents); adequacy of documents required by the Project Management Framework; improvement to clarity of requirements and responsibilities; and poor quality completion of documentation.

- 7.5 In addition, the Tube Lines audit team carried out 34 HSE audits and six supplier audits during the year.
- 7.6 These audits identified 113 Non- conformances. Two of these went overdue for a short time (less than a week), but all other actions were closed out on time. 41 Business Improvement Actions were also raised, all of which were closed on time. There were a variety of reasons for the issues identified, although they typically reflected behavioural issues of not following due process.

## **8 GOVERNANCE AND RISK MANAGEMENT**

- 8.1 During the year we have carried out a number of audits covering aspects of TfL's overall corporate governance arrangements
- 8.2 We carried out a review to provide assurance that TfL has effective processes to manage Employment Tribunal cases brought against it. Overall the process appeared to be operating effectively and our report noted only one minor issue around the need for a formal lessons learnt process.
- 8.3 We audited the adequacy and effectiveness of the controls for compliance with the Freedom of Information Act. TfL receives well over 2,000 requests each year on average, one of the highest numbers received by any public body and despite this, 85 per cent of requests received in 2011/12 were responded to within the required timescales. Requests considered 'sensitive' though were often issued late due to them often being complex, and requiring additional levels of approval. We did not find any instances of non-compliance with the FOIA during the audit and concluded that the controls in place to ensure compliance were effective.
- 8.4 We reviewed the operation of the Annual Assurance Letters process including an examination of the accuracy and rigour of the self-assessment returns and found that adequate arrangements were in place.
- 8.5 We carried out a review to determine the extent of compliance with the Code of Recommended Practice for Local Authorities and the requirement to publish certain specified information relating to the discharge of their functions. We confirmed that TfL had responded to the Code in an appropriate manner and taken the necessary action to comply with its requirements.
- 8.6 We also reviewed the adequacy and effectiveness of the controls operating over non-operational business continuity arrangements. There were a number of issues raised including there being no-one within the business coordinating and taking ownership of arrangements; high level policies were out of date and did not reflect current arrangements and there had not been an organisation-wide impact analysis performed since

2008. Based on these findings, we concluded that the controls required improvement and actions to address the issues raised are being taken forward.

- 8.7 An audit report from our review of the recording, authorisation and monitoring of gifts and hospitality was in the process of being finalised at the year end. We found that a transparent and consistent process is in place for recording, monitoring and reporting offers received by the Commissioner, Chief Officers and their direct reports but noted that there was scope for improving the processes in place for more junior staff.
- 8.8 An audit of risk management in Rail and Underground was in progress at year end.

## **9 OTHER – HUMAN RESOURCES**

- 9.1 We carried out an audit of Agency Temporary Worker Processes, which identified a number of significant issues, leading to the report concluding that the process was poorly controlled. In particular: agency temporary workers can be engaged in positions holding significant financial and managerial responsibility, the process does not always maximise value for money; there is no checking to ensure that hiring managers request all the employment screening checks required, and agency temporary workers can be engaged for extended periods of time when it would be more efficient to engage permanent employees. Action is in progress to address the issues identified, and a follow-up review will be carried out in August.
- 9.2 We also reviewed the effectiveness of the controls over the voluntary severance process. We found a number of areas of good practice, but also noted a significant issue around policies not defining a time limit on the validity of offers made to employees. We concluded that the control arrangements required improvement and management actions have been agreed to address this.
- 9.3 Additionally, at the request of management, we have worked with the business to provide advice on the adequacy and effectiveness of controls over the development and implementation of the E-form which will automate the capture of data required on the pro-forma for voluntary severance compromise agreements completion.
- 9.4 An audit of document retention/ management in HR was in progress at the year end.

## **10 OTHER – SECURITY**

- 10.1 The work carried out under this heading is a mixture of security audits, real time assurance, and consultancy work to support the business.

- 10.2 We carried out audits of physical security arrangements at data centres and of the processes supporting off-site back up media. In both cases we found effective security arrangements to be in place. We also audited security arrangements at the Emirates Airline and London Transport Museum. In both cases the reports, issued since the year end, identified a number of issues, and action is being taken forward to address these.
- 10.3 During the year we have continued to work with Group Treasury to support TfL's activities aimed at obtaining Payment Card Industry Data Security Standard (PCI DSS) certification. One of our auditors is now a fully accredited PCI DSS Internal Security Assessor and has worked alongside the external Qualified Security Assessor (QSA) in a number of areas, highlighting areas for improvement and enabling prompt remediation. This has assisted TfL's preparations for future assessments and helps ensure that TfL will be able to undertake and submit self assessments, certified by the TfL ISA, as agreed with TfL's merchant acquirer, Barclays Merchant Services (BMS). This reduces the amount of work that the external QSA needs to conduct at TfL thus substantially reducing costs to TfL. We also carried out a PCI DSS audit of the Funds Reconciliation System used by the Customer Experience team, which raised a number of issues, which are being addressed.
- 10.4 An audit of the security of London Underground SCADA (Supervisory Control and Data Acquisition) systems and their resilience against external cyber attacks was conducted through the use of the CPNI SCADA risk assessment tool, resulting in a number of minor issues being found and addressed. The use of the tool was fully embraced by the business and it will be deployed again during 2013/14.
- 10.5 We have also provided the business with security advice and support across a number of areas.

## **11 CROSSRAIL**

- 11.1 We issued 13 internal audit reports and five memorandums in respect of Crossrail during the year. Of the audit reports, one was concluded as 'poorly controlled' five were concluded as 'requires improvement', four were 'adequately controlled' and three were 'well controlled'. The results of work in Crossrail are also reported to the Crossrail Audit Committee.
- 11.2 The internal audit report concluded as 'poorly controlled' related to an audit of controls over the validation of invoices received from Crossrail's delivery partners prior to payment. The audit identified a number of weaknesses in the arrangements for submitting, checking and approving contractors' timesheets, although we found no evidence of any invalid payments having been made. Since the year end, we have carried out a follow up review and confirmed that all of the agreed management actions have been implemented, and the audit is now closed.

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

- (a) Our audit of Construction Management found some good practice, but also identified two significant issues. Contractor Quality Management Systems were not fully in place on two contracts we reviewed, and resource constraints limited the ability of project teams to intervene in the delivery of contractors' quality management.
- (b) The audit of the Programme Delivery Partner (PDP) contract performance found that there had been substantial improvement in the alignment of the objectives of Crossrail and the PDP. However two significant issues were also noted. There was a need to review charge rates in light of the reduction in PDP's level of risk exposure, and there was insufficient oversight over the deployment of personnel resources by Crossrail management.
- (c) The Fujitsu Contract Audit noted one significant issue, which was that for certain contractual service measures the contractor was providing inadequate evidence to support the delivery of those measures.
- (d) Our audit of Crossrail's processes for ensuring that PAYE is properly calculated and administered by the outsourced payroll provider did not identify any issues with the payment of PAYE. However, we did note one significant issue regarding the contract with the payroll provider, which was out of date, with no evidence of subsequent review and extension to the contract.
- (e) Our audit of Crossrail's Insurance Arrangements identified some areas of good practice, but also noted one Priority 1 issue, which was that the database of contractors' insurance details had not been kept up to date.

11.4 In addition, the Crossrail compliance and contractor audit function, whose work is managed by the Senior Audit Manager – Crossrail has carried out 18 technical, quality and environmental audits of compliance with aspects of the Crossrail Management System. Nine of these audits were concluded as 'requires improvement', six were 'adequately controlled' and three were 'well controlled'. In all cases, prompt action has been taken to address the issues raised.

## **12 LONDON TRANSPORT MUSEUM (LTM)**

12.1 We carried out a programme of audits at LTM, the results of which are also reported to the Museum's audit committee. This included our work on the Museum's efficiencies programme referred to in Section 2 above.

12.2 We issued an audit report on Stock Control, which identified a number of control issues including reliability of stock records and monitoring of slow moving stock. The report was concluded as 'requires improvement'. A management action plan has been agreed to address the issues raised.

12.3 A review of efficiencies related to LTM's IM arrangements and a review of physical security arrangements (referred to in Section 10 above) were in progress at the year end.

**INTERNAL AUDIT CUSTOMER FEEDBACK FORM  
SUMMARY OF RESPONSES FOR 2012/2013**

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, **and return it to us by email**. 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.

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.

**Customer Feedback Forms Sent (Period 1 – 13) = 82 (2011/12 = 82)**

**Customer Feedback Forms Returned (Period 1 – 13) = 40 (2011/12 = 39)**

		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	1	4	20	15
2)	The assignment was completed and the report issued within appropriate timescales	1	1	4	7	17	9
<b>COMMUNICATION</b>							
3)	Communication prior to the assignment was appropriate, including the dates and objectives	0	0	1	7	18	14
4)	Throughout the assignment I was informed of the work's progress and emerging findings	1	1	2	9	19	8
<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	3	11	15	11
6)	The Internal Audit team acted in a constructive, professional and positive manner	0	0	1	3	17	19
<b>RELEVANT AND USEFUL ADVICE AND ASSURANCE</b>							
7)	A fair summary of assignment findings was presented in the report	0	0	3	8	12	17
8)	Assignment recommendations were constructive, practical and cost-effective	1	1	1	8	16	13
9)	My concerns were adequately addressed and the review was beneficial to my area of responsibility and operations	0	1	3	7	12	17

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

*"The original time scales and effort anticipated was quite a way short of actuals. The auditor would have benefited from a better understanding of IM processes that linked into the processes that were audited. A large amount of time was taken to explain how all this hangs together and there was a lot of repetition. Additional benefit could have been derived by a deeper technical knowledge of what was being audited."*

*"I would like to renew my thanks for the behaviours demonstrated by the team who in my view were outstanding. The Senior Audit Manager's listening skills and leadership with the rest of the team were a massive contributor to the audit running smoothly. I am satisfied that the findings and associated risks were eventually weighed fairly thanks to a communication channel that was kept open at all times."*

*"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."*

*"The assignment was generally well managed. The report left some challenging actions that are Pan-TfL and going forward it would be helpful if the audit team could assist with the communication to the wider business. The communication could be improved prior to the assignment, for example the scope being in more detail. Although I was informed regarding the progress, the actions only came to light at the end."*

*"The final report could have been more explicit in how things might need to change at an organisational level across TfL rather than focussed on [this department]."*

*"The audit was carried out very professionally but I feel that sometimes audit are more politically correct with the audit results and should be more forceful with their views and make sure there is no ambiguity in the language."*

*"I thought it took a long time for the audit team to grasp some of the complexities of [the area under review], and the way in which TfL manages it - there were still basic factual errors in the final draft of the Audit Report which I had corrected previously."*

*"The consultancy review approach was valuable and appreciated, particularly by staff in the target area, and the practicality and value of the recommendations was welcomed."*