

Date: 18 June 2014

Item 13: Review of Governance and the Annual Governance Statement for Year Ended 31 March 2014

This paper will be considered in public

1 Summary

- 1.1 This paper provides a review of compliance with the TfL Code of Governance in 2013/14 and asks the Committee to approve the Annual Governance Statement, as set out in Appendix 1, to be signed by the Chair of TfL and the Commissioner for inclusion in the 2013/14 Annual Report and Accounts.

2 Recommendation

- 2.1 **That the Committee approve the Annual Governance Statement, as set out in Appendix 1, for signing by the Chair of TfL and the Commissioner, for inclusion in the 2013/14 Annual Report and Accounts.**

3 Background

- 3.1 The Accounts and Audit (England) Regulations 2011 require that TfL's Statement of Annual Accounts be accompanied by a Statement on Internal Control, prepared in accordance with proper practices. The guidance issued by the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) includes a template for an Annual Governance Statement that incorporates the elements of a Statement of Internal Control and fulfils the statutory requirements.
- 3.2 The Audit and Assurance Committee has the delegated responsibility to monitor TfL's on-going compliance with TfL's own Code of Governance, which is based on the updated CIPFA/SOLACE Governance Framework and was approved by TfL in March 2008.
- 3.3 The Annual Governance Statement follows a template provided in the CIPFA/SOLACE guidance.

4 The 2013/14 Review and the Annual Governance Statement

The 2013/14 Review

- 4.1 The annual review considers the degree of compliance with each undertaking in TfL's Code of Governance. The assessments for the degree of compliance with the Code of Governance's undertakings are consistently high.

- 4.2 The 2012/13 annual review concluded that TfL had a satisfactory level of compliance with the Code of Governance and highlighted the potential governance challenges involved in a number of anticipated changes. The issues to be addressed during the year included the external review of Board performance and governance and the implementation of an Integrated Assurance Framework.

The Annual Governance Statement

- 4.3 The Annual Governance Statement comments on the standard of governance within TfL, sets out TfL's approach to governance including internal control, identifies those areas where further work is to be undertaken and describes the monitoring process to ensure the effectiveness of the Code of Governance. The draft Annual Governance Statement is included as Appendix 1.
- 4.4 There were no significant governance issues that needed to be highlighted in the Annual Governance Statement arising from the 2013/14 review. However, there are areas identified in the Annual Governance Statement relating to matters that need to be kept under review in 2014/15.

Governance Issues in 2013/14

- 4.5 The 2013/14 review confirms that TfL continues to achieve a high standard of corporate governance and has continued to make improvements as TfL's structure and procedures have developed and matured. The assessments of compliance with each individual undertaking have not changed between 2012/13 and 2013/14.
- 4.6 There were a number of significant developments in relation to TfL's governance during 2013/14. These included:
- (a) the implementation of an annual comparison of TfL's governance arrangements with the UK Corporate Governance Code;
 - (b) revisions to Standing Orders in July 2013 to remove the delegated authority previously given to Tube Lines (Holdings) Limited;
 - (c) the continuing development of a TfL wide integrated management system;
 - (d) the implementation and embedding of a TfL wide integrated project management methodology (TfL Pathway);
 - (e) the commencement of publication of Gifts and Hospitality received by Members on a quarterly basis;
 - (f) the commencement of publication of expenses claimed by the Commissioner and Chief Officers on a quarterly basis;
 - (g) the reletting of the contract for TfL's external reporting line service;

- (h) the operation of TfL's Member-level decision making structure continued to evolve to improve transparency and the quality and consistency of the information provided. Further changes, to be implemented from 1 April 2014, were agreed and include holding meetings of TfL's Panels in public;
- (i) the continuation of the assurance mapping process;
- (j) the creation of a new website with extended transparency pages;
- (k) the introduction of a change programme to improve the strategic risk framework; and
- (l) improvements in the reporting of financial information.

Improvement Plan

- 4.7 An Improvement Plan to ensure the steady improvement of TfL's governance was prepared for 2013/14. Appendix 2 provides a commentary on progress in delivering each action identified. Appendix 3 includes an Improvement Plan for 2014/15.

List of appendices to this report:

Appendix 1 – Annual Governance Statement
Appendix 2 – Progress Against Improvement Plan 2013/14
Appendix 3 – Improvement Plan 2014/15

List of Background Papers:

TfL Annual Governance Statement 2013
TfL Integrated Assurance Framework – Audit and Assurance Committee paper 5 March 2014
Update: Strategic Risk Management Q3 – Audit and Assurance Committee paper 5 March 2014
Review of TfL's Independent Reporting lines for Year Ended 31 December 2013 - Audit and Assurance Committee paper 5 March 2014
Decision Making Structure – Board paper 6 November 2013
Revision to Standing Orders – Board paper 26 March 2014

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Scope of Responsibility

Transport for London (TfL) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. TfL also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, TfL is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Under section 127 of the Greater London Authority Act 1999, an individual must be given personal responsibility by appointment of TfL to 'make arrangements for the proper administration of financial affairs'. This role is performed by TfL's Chief Finance Officer (CFO). TfL's financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy *Statement on the Role of the Chief Financial Officer in Local Government* (2010), except that the CFO is not a member of the leadership team. However, the CFO plays an active part in TfL strategic decision making. His responsibilities are discharged through:

- involvement in all key decisions with a significant financial implication;
- involvement with Business Management Review meetings; and
- management responsibilities for the production of the Business Plan and statutory accounts.

The CFO is appointed and removed by the Board, reviews all papers relating to financial management for the Chief Officers, Committees or Board in advance, attends all Board meetings and has unrestricted access to the Commissioner. The CFO reports to the Managing Director (MD) Finance.

TfL has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/Society of Local Authority Chief Executives Framework *Delivering Good Governance in Local Government*.

A copy of the TfL Code of Governance is available online at tfl.gov.uk or can be obtained from the Secretariat, Windsor House, 42-50 Victoria Street, London, SW1H 0TL. This statement explains how TfL has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which TfL is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables TfL to monitor the

achievement of its strategic objectives and the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk and provide reasonable, although not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of TfL's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at TfL since the year ended 31 March 2001. It remains in place at the date of approval of the 2013/14 Statement of Accounts.

The Governance Framework

The Mayor, who serves as its Chair, appoints the TfL Board members. The Board determines and agrees TfL's strategic direction and oversees the performance of the executive team.

The Board has three committees:

- Finance and Policy;
- Audit and Assurance; and
- Remuneration.

In November 2013, as part of its effectiveness review, the Board reviewed and proposed changes to its decision making structure from 1 April 2014. To support a simplified decision making process, with clear accountabilities, it agreed to integrate the functions of the Projects and Planning Panel into the work of the Finance and Policy Committee. The name and terms of reference of the Safety and Sustainability Panel were also amended to reflect its increased focus on accessibility issues.

As from 1 April 2014 there are three panels, made up of Board members, which provide strategic advice to the Board on the development and execution of policy:

- Rail and Underground;
- Surface Transport; and
- Safety, Accessibility and Sustainability.

The Audit and Assurance Committee has been delegated the responsibility for overseeing corporate governance in TfL. It has received reports on the implementation of the Code of Governance ("the Code"), the Annual Governance Statement contained in these accounts and the results of the compliance review. It receives regular reports from the General Counsel and the Director of Internal Audit and is responsible for the annual assurance process.

The Commissioner of TfL, advised by his Chief Officers, is responsible and accountable for the delivery of the day-to-day operations of TfL. The General Counsel has the overall responsibility for the operation of the Code and for ensuring that it is integral to the routine functioning of TfL. In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it. He also carries out an annual benchmarking

exercise comparing TfL's governance arrangements with the UK Corporate Governance Code.

TfL is working to ensure that good governance is fully incorporated into the culture of the organisation and is applied consistently and transparently.

TfL identifies and communicates its vision of its purpose and intended outcomes for citizens and service users by:

- the Mayor developing and publishing a Transport Strategy reflecting national and local priorities;
- the Budget and Business Plan reflecting the Transport Strategy and allocating resources accordingly;
- reviewing on a regular basis the implications of the Transport Strategy for its governance arrangements;
- ensuring that those making decisions are provided with information that is fit for purpose – relevant, timely and gives clear explanations of technical issues and their implications; and
- conducting its business on an open basis, subject only to the requirements of appropriate levels of individual and commercial confidentiality and security.

TfL measures the quality of services for users, ensures they are delivered in accordance with TfL's objectives and ensures that they represent the best use of resources by:

- having in place sound systems for providing management information for performance measurement purposes;
- ensuring performance information is collected at appropriate intervals across all activities;
- having comprehensive and understandable performance plans in place;
- monitoring and reporting performance against agreed targets;
- maximising its resources and allocating them according to priorities;
- having in place effective arrangements to identify and deal with failure in service delivery;
- developing and maintaining an effective scrutiny function for its Investment Programme that encourages constructive challenge and enhances TfL's performance overall; and
- publishing operational and financial performance data each quarter..

TfL defines and documents the roles and responsibilities of the Board, Committees, Panels and staff with clear delegation arrangements and protocols by:

- having a documented scheme of delegation that reserves appropriate responsibilities to the Board and provides staff with the authority to conduct routine business; and
- having the roles and responsibilities of Board members and senior staff clearly documented.

TfL has developed and communicates the requirements of the Code of Conduct, defining the standards of behaviour for Board members and staff by:

- ensuring it is an organisation that has a climate of openness, support and respect;
- ensuring that standards of conduct and personal behaviour expected of Board members and staff, between Board members and staff and between TfL, its partners and the community are defined and communicated through codes of conduct and protocols;
- putting in place arrangements to ensure that Board members and staff of TfL are not influenced by prejudice, bias or conflicts of interest;
- ensuring that an effective process, which includes an effective Remuneration Committee, is in place to set the terms and conditions for remuneration of the Commissioner and Chief Officers;
- developing and maintaining shared values including leadership values for both the organisation and staff reflecting public expectations and communicating these to Board members, staff, the community and partners;
- putting in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice;
- setting targets for performance in the delivery of services to ensure equality for all; and
- using its shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within TfL.

TfL reviews and updates Standing Orders, standing financial instructions, its scheme of delegation and supporting procedures that clearly define how decisions are taken and the processes and controls required to manage risks by:

- having a clear hierarchy of governance documentation whose components are regularly reviewed;
- maintaining robust systems for identifying and evaluating all significant risks;
- maintaining an effective risk management system; and
- ensuring that risk management is embedded into its culture, with Board members and staff at all levels recognising that risk management is part of their jobs.

TfL ensures that the core functions of the Audit and Assurance Committee are delivered by:

- having an effective, independent Audit and Assurance Committee
- having the Audit and Assurance Committee develop and maintain an effective oversight;
- having an internal audit department that complies with relevant professional standards and is regularly evaluated by external auditors;
- having an Integrated Assurance Plan that is driven by an annual evidenced assessment of the key business risks facing TfL; and
- maintaining an Integrated Assurance Plan.

TfL ensures compliance with relevant laws, internal policies and procedures, and that expenditure is lawful by:

- ensuring that all activities are legally correct, fully documented, appropriately authorised and carried on in a planned manner;
- making a senior member of staff responsible for ensuring that appropriate advice is given in all financial matters, for keeping proper financial records and accounts and for maintaining an effective system of internal financial control;
- maintaining proper records to ensure that the annual accounts show a true and fair view and that expenditure has been properly authorised and allocated in an appropriate manner;
- ensuring that a senior member of staff is responsible for all activities being legally correct, fully documented and appropriately authorised;
- developing and maintaining open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based;
- putting in place arrangements to safeguard against conflicts of interest;
- ensuring that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately;
- actively recognising the limits of lawful activity placed on it but also striving to utilise its powers to the full benefit of the public; and
- observing all legal requirements placed upon it and integrating the key principles of good public law – rationality, legality and natural justice – into its procedures and decision-making processes.

TfL has made arrangements for whistle-blowing and for receiving and investigating complaints from the public by:

- ensuring that effective, transparent and accessible arrangements are in place for making, receiving and dealing with complaints; and
- ensuring that arrangements are in place for whistle-blowing to which staff and all those contracting with TfL have access including external independent reporting lines.

TfL identifies the development needs of Board members and staff in relation to their strategic roles, supported by appropriate training by:

- ensuring that its Board members and staff are provided with the necessary training to perform their roles;
- ensuring that its staff are competent to perform their roles;
- ensuring that the Chief Finance Officer has the skills, resources and support necessary to perform effectively in his role and that this role is properly understood throughout TfL;
- assessing the skills required by Board members and staff and committing to develop those skills to enable roles to be carried out effectively;
- commissioning regular external reviews of Board effectiveness; and
- developing skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.

TfL establishes clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation by:

- having in place proper arrangements designed to encourage individuals and groups from all sections of the community to engage with, contribute to, and participate in the work of TfL;
- making clear to staff and the public what it is accountable for and to whom;
- publishing, publicising and making generally available an annual report as soon as practicable after the end of the financial year;
- the annual report presenting an objective and understandable account of its activities and achievements and its financial position and performance;
- cooperating with appropriate organisations to ensure there is independent scrutiny of its financial and operational reporting processes; and
- having a clear policy on the types of issues it will consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result.

TfL incorporates good governance arrangements in respect of partnerships and other group working by:

- fostering effective delivery relationships and partnerships with other public sector agencies, the private and voluntary sectors;
- establishing appropriate arrangements to engage with all sections of the public effectively; and
- establishing appropriate arrangements to engage with interest groups such as financial institutions, businesses and voluntary groups to ensure they are able to interact with TfL on matters of mutual interest.

Review of Effectiveness

TfL has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior staff within TfL who have responsibility for the development and maintenance of the governance framework, the Director of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

TfL's General Counsel has the responsibility for overseeing the implementation and monitoring the operation of the Code and reporting annually to the Audit and Assurance Committee on compliance with the Code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

In addition, the Director of Internal Audit annually comments on the adequacy and effectiveness of the Code and the extent of TfL's compliance with it.

TfL's Audit and Assurance Committee has considered the review of the effectiveness of the governance framework and a plan to ensure continuous improvement is in place.

This year's review included a review of Standing Orders and a revised Committee and Panel structure to provide greater transparency and a review of External Audit effectiveness.

Significant Governance Issues

During the year 2013/14 TfL has implemented the recommendations of the external review of Board effectiveness, introduced new Standing Orders and implemented a revised Committee and Panel structure to provide greater public access to meetings and improved transparency.

TfL has commenced publication of Gifts and Hospitality received by Members on a quarterly basis and published all expenses claimed by the Commissioner and Chief Officers on a quarterly basis.

Following a competitive tendering process TfL has re-let the contract for its external reporting line service. A change programme to improve TfL's Strategic Risk Management Framework has commenced and the strategic risk register has been updated. A new Anti-Fraud and Corruption Policy was adopted.

The new external website now includes revised and extended transparency pages publicising all contracts over £500k value and all expenditure in excess of £250. These pages also contain detailed updates on TfL's financial performance and general operational and performance data including all final Internal Audit reports.

TfL proposes to continue to improve and develop its governance arrangements over the coming year.

The coming year will see the ongoing implementation of the recommendations of the Board effectiveness review, the continuation of the development of a TfL wide management system and the creation of a single TfL intranet.

Issues to be addressed in the coming year will also include the continuation of assurance mapping process, the integration of strategic risk into the existing assurance process and the annual benchmarking of TfL's governance regime with the UK Corporate Governance Code.

TfL is confident that the current governance processes and planned developments will enable it to meet the challenges identified.

Signed:

Chair of TfL Board

Signed:

Commissioner

Appendix 2

Improvement Plan 2013/14

Proposed Activity	Responsible Chief Officer	Commentary
Ongoing implementation of the agreed recommendations of the Board effectiveness review 2012.	General Counsel	All agreed recommendations have been implemented. The the quality and consistency of the information provided has continued to improve. Further changes to the transparency of the decision making structure have been implemented from 1 April 2014.
Commence the publication of the Commissioner and Chief Officers' expense claims.	General Counsel	Since April 2013 all expenses claimed by the Commissioner and Chief Officers have been published.
Extend the publication of the Gifts and Hospitality Register on the TfL website to Members.	General Counsel	Since April 2013 all accepted offers by Members have been published.
Implement the annual exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.	General Counsel	Internal Audit carried out this review in January 2014.
Continue with the development of a TfL wide integrated Management System. Develop and publish those items identified in the plan and create a pan TfL change enabling process.	General Counsel	During 2013/14 One TfL Management System materials were made available on the TfL and LU intranets covering the following areas: Human Resources, Health Safety and Environment and Information Governance. During 2014/15 further elements will be developed as identified in the project plan.
Implement the Integrated Assurance Plan and develop assurance maps for project assurance, health and safety and efficiencies.	General Counsel	Partially completed. The Integrated Assurance Plan for 2013/14 was successfully delivered and the assurance map for project assurance was delivered. The maps for Health and Safety and efficiencies were rescheduled to allow for completion of the HSE Management System.

Proposed Activity	Responsible Chief Officer	Commentary
Integrate strategic risk management into the assurance process.	MD, Finance	Partially complete. Improved processes for identifying and managing strategic risk have been developed and approved by the Audit and Assurance Committee, are being implemented in the course of 2014/15.
Implement a system of regular review of the membership of the centrally maintained gifts and hospitality register.	General Counsel	This has taken place with 124 people being transferred from the central register to local registers.
Introduce improvements in the presentation of financial information to customers and stakeholders.	MD, Finance	Improvements have been made to the information provided in the quarterly Operational and Financial Performance Report and Investment Programme Report, including presenting the information in a way that is consistent with the Business Plan and Budget.
Implement revised project performance monitoring reporting.	MD, Finance	Improvements have already been made to align project reporting between the Investment Programme Report, the Operational and Financial Report and the Investment Programme Hierarchy (which reflects the structure of the Business Plan). Further improvements will be implemented throughout 2014/15 as part of the Integrated Project Controls/Integrated Project Reporting work streams.
Communicate and embed TfL's integrated project management methodology, TfL Pathway.	MD, Finance	TfL's new project management methodology (Pathway) was implemented in April 2013, along with training and support. Pathway was progressively adopted across TfL projects throughout the rest of the year, with all projects (except a very few projects in their closing stages) now using Pathway. Pathway provides a consistent and integrated methodology.

Proposed Activity	Responsible Chief Officer	Commentary
Improve strategic risk reporting	MD, Finance	Partially complete. Improved processes for identifying and managing strategic risk have been developed and approved by the Audit and Assurance committee, are being implemented in the course of 2014/15.
Establish the Customer, People and Value Groups	MD, Customer Experience, Marketing and Communications	These Groups have been established and their terms of reference and membership set.
Establish Programme Boards across TfL's major programmes	MD, London Underground	Programme Boards have been established for the items in the Rail and Underground Plan with agreed Terms of Reference. Periodic reporting on the key decisions taken are reported to the Rail and Underground Board.

Improvement Plan 2014/15

Proposed Activity	Responsible Officers
Conduct and implement any recommendations from an annual review of Board effectiveness.	General Counsel
Implement the revised decision making structure from 1 April 2014, seeking continuous improvement in the quality, consistency and transparency of the information provided, including holding meetings of TfL's Panels in public.	General Counsel
Continue the annual exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.	General Counsel and Director of Internal Audit
Formalise a system of annual reviews to assess whether any limited companies within the group are no longer necessary and can be dissolved.	General Counsel
Prepare and disseminate advice to new and existing statutory directors of subsidiary companies explaining their duties and responsibilities under the Companies Act 2006.	General Counsel
Continue with the development of a TfL wide integrated Management System. Develop and publish those items identified in the plan and create a pan TfL change enabling process.	General Counsel and Director of Health, Safety and Environment
Implement the Integrated Assurance Plan and develop assurance maps for health and safety and efficiencies (including a "Fresh Eyes Review" of efficiencies).	General Counsel and Director of Internal Audit
Integrate strategic risk management into the assurance process.	MD, Finance and Chief Finance Officer
Review and redraft as necessary the Business Continuity Management Policy.	MD, Finance
Regular/ongoing review of the membership of the centrally maintained gifts and hospitality register.	General Counsel
Create a single TfL Intranet.	MD, Customer Experience, Marketing and Communications
Comply with the new DCLG Transparency Code and Openness Regulations as enacted.	General Counsel