

TRANSPORT FOR LONDON

BOARD

SUBJECT: USE OF RESOURCES

DATE: 4 NOVEMBER 2010

1 PURPOSE AND DECISION REQUIRED

1.1 The purpose of this paper is to inform Members of the conclusions of a report from KPMG on how well TfL manages and uses its financial resources. The Board is requested to note the paper.

2 BACKGROUND

2.1 On 13 August 2010, the Communities and Local Government Secretary of State, Eric Pickles, announced the disbanding of the Audit Commission as from 1 April 2012. Although the Audit Commission continues to function as a legal body until that date it will no longer be conducting an Organisational Assessment of TfL. This means that the Commission and KPMG will not be doing any further work on the Managing Performance and Use of Resources exercises in respect of the 2009/10 financial year.

2.2 However, by 26 May 2010 when the Audit Commission instructed auditors to cease work on Use of Resources assessments for 2010, KPMG, the Audit Commission's appointed auditor, had already completed its fieldwork for the Use of Resources. Consequently, at TfL's request, KPMG produced a report on the work it had completed. This report was considered by the Audit Committee at its meeting on 28 September 2010.

3 USE OF RESOURCES

3.1 This report on the Use of Resources assessment evaluates how well Transport for London (TfL) manages and uses its financial resources. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the organisation's priorities and improve services. The questions on which the judgements are based are broad and strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those arrangements. The assessment has three themes, broken down into two to three Key Lines of Enquiry covering:

- (a) Managing Finances;
- (b) Governing the Organisation; and
- (c) Managing Resources.

4 KEY POINTS

4.1 The report singled out four areas of good practice:

- (a) Financial Reporting – the planned deadline for signature of the statutory accounts of the TfL Group and subsidiaries continued to be significantly earlier than those achieved by most local authorities. In 2009, several of the new businesses acquired or formed by TfL during 2008/09 had difficulty in complying with the Group accounting timetable (in particular, the Nominee companies and London Transport Museum). There had been significant improvement in the quality of accounts prepared by these businesses this year, and in the timeliness of information available for audit.
- (b) Data quality and use of information – the introduction of a new data quality initiative in 2009/10 had ensured management was focused on key data streams supporting business critical performance indicators. This framework, supported by the newly established Data Quality Team, had delivered improvements in the consistency, accuracy and reliability of reported information.
- (c) Good governance – there had been a demonstrable improvement in induction procedures and a renewed focus on the Code of Conduct. The review of Committees and Panels carried out in 2009 had a positive impact in providing clarity on the objectives and focus of Committees and Panels to support decision making and improved outcomes throughout 2009/10.
- (d) Risk management and internal control – there had been continuing developments in risk management arrangements and improved risk management training had yielded high satisfaction scores. TfL was highly commended by Strategic Risk Magazine in its Enterprise-wide Risk Programme of the Year awards 2010. In addition, TfL's proactive management of the business risk relating to Tube Lines Limited through the Periodic Review process resulted in the acquisition by TfL of the equity shares in Tube Lines Limited that was completed on 27 June 2010.

4.2 Further notable points include:

- (a) TfL established a Special Purpose Committee, comprised of TfL Board Members, to consider the acquisition of Tube Lines. KPMG considered this to be an area of notable practice; and
- (b) KPMG noted that TfL's procurement departments had been identified as leaders in the fields of Supplier Relationship Management and Responsible Procurement.

4.3 Overall, management's view is that it is likely that had the Use of Resources assessment process been completed as in prior years, the achievements in specific areas as summarised in this report would have resulted in an overall assessment that TfL 'performs excellently' in 2010 compared to 'performs well' in 2009. 'Performs excellently' is the highest level of performance on the former assessment scale.

4.4 KPMG also identified five further areas for consideration:

- (a) The Group accounting timetable deadlines for signing of statutory accounts were 17 June for subsidiaries and 16 July for the TfL Group accounts. As at 23 July 2010, the Group Accounts and those of Transport Trading Limited had not been signed. KPMG recommended that in future TfL should ensure that subsidiary accounts were signed prior to the TfL Board meeting at which the Group accounts were approved.
- (b) TfL should request Internal Audit to perform a review of induction procedures in 2010/11 and also request it to perform a review of compliance with the Code of Conduct. The findings should be reported to the Audit Committee.
- (c) TfL should continue to integrate and align its risk management systems across the enlarged group, including Tube Lines.
- (d) Achieving operational and strategic objectives would be challenging in the difficult economic climate and awaited public spending review. TfL should continue to assess and manage this risk.
- (e) TfL should continue to consider how it would achieve best value in delivering operational and strategic objectives within the context of cost constraints resulting from the Operating Cost Reduction Programme.

5 RECOMMENDATION

5.1 The Board is requested to NOTE the paper.

6 CONTACT

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