



Date: 19 June 2013

Item 13: Review of Governance and the Annual Governance Statement for Year Ended 31 March 2013

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 2012/13 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 2012/13 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 2012/13 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 2012/13 Review and the Annual Governance Statement

The 2012/13 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 2011/12 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 2012/13 review. However, there are areas identified in the Annual Governance Statement relating to matters that need to be kept under review in 2013/14.

Governance Issues in 2012/13

- 4.5 The 2012/13 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 2011/12 and 2012/13.
- 4.6 There were a number of significant developments in relation to TfL's governance during 2012/13. These included:
- (a) the implementation of the recommendations of the external review of Board performance and governance;
 - (b) the introduction of new Standing Orders to comply with the Localism Act 2011 and the meeting provisions of the Local Government Act 1972;
 - (c) the implementation of systems to enable TfL to meet the requirements of the Data Transparency Code;
 - (d) the ongoing development of a TfL wide integrated management system;
 - (e) the creation of a TfL wide integrated project management methodology (TfL Pathway);
 - (f) the commencement of publication of Gifts and Hospitality received by the Commissioner and Chief Officers on a quarterly basis and full publication of Games related hospitality for all staff;

- (g) the commencement of publication of TfL's complaints data on a quarterly basis;
- (h) the relaunch of TfL's external reporting line service; and
- (i) the introduction of a TfL wide strategic risk register.

Improvement Plan

- 4.7 An Improvement Plan to ensure the steady improvement of TfL's governance was prepared for 2012/13. Appendix 2 provides a commentary on progress in delivering each action identified. Appendix 3 includes an Improvement Plan for 2013/14.

List of appendices to this report:

Appendix 1 – Annual Governance Statement
Appendix 2 – Progress Against Improvement Plan 2012/13
Appendix 3 – Improvement Plan 2013/14

List of Background Papers:

TfL Annual Governance Statement 2012
Integrated Assurance Plan – Audit and Assurance Committee paper 6 March 2013
Update: Strategic Risk Management Q3 – Audit and Assurance Committee paper 6 March 2013
Review of Internal Audit Effectiveness – Action Plan – Audit and Assurance Committee Paper 6 March 2013

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Annual Governance Statement

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 is appointed and can be removed by the Board. The CFO reviews in advance all papers relating to financial management for the Chief Officers, Committees or Board, attends all Board meetings and has unrestricted access to the Commissioner. The CFO reports to the Managing Director (MD) Finance, and plays an active part in TfL strategic decision making. His responsibilities are also 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.

During 2012/13 a new CFO was appointed with the above responsibilities.

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 2012/13 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.

There are four 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;
- Projects and Planning; and
- Safety 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.

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; and
- developing and maintaining an effective scrutiny function for its Investment Programme that encourages constructive challenge and enhances TfL's performance overall.

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 standard of conduct overview;
- 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
- substantially completing the Integrated Assurance Plan. Divergence from the plan is due to changes in business requirements.

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 environment, 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) a review of Standing Orders and a revised Committee and Panel structure to comply with the Localism Act;
- (b) a review of internal systems to enable TfL to meet the requirements of the Data Transparency Code; and
- (c) an external review of Internal Audit effectiveness.

Significant governance issues

Balancing the need to manage within the Government funding settlement and deliver the Mayor's priorities remains the most significant issue facing TfL and one that will continue to present a challenge to its management. Streamlined governance arrangements have been implemented and senior staff oversight will be maintained to ensure appropriate and timely responses to such issues that arise.

During the year 2012/13 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 comply with the Localism Act. TfL has commenced publication of Gifts and Hospitality received by Chief Officers on a quarterly basis and made full publication of Games related hospitality for all staff it has also commenced publication of complaints data on a quarterly basis. Also the strategic risk register has been updated.

Issues to be addressed in the coming year include the re-letting of the contract for TfL's external reporting line service, the introduction of TfL Pathway, an integrated project management methodology, 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 proposes to continue to improve and develop 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.

It 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

Improvement Plan 2012/13

Proposed Activity	Responsible Chief Officer	Commentary
Implement the outcome of the Board effectiveness review 2012.	General Counsel	All recommendations were addressed and a response provided identifying ongoing improvements.
Disseminate the revised Standing Orders and monitor compliance. Implement and monitor the new structures for Committee and Panel meetings.	General Counsel	The revised Standing Orders were published. The new Committee structure has been imbedded and the Committees populated. All meetings of the Board and its Committees have complied with Standing Orders.
Commence publication of the Gifts and Hospitality Register on the TfL website.	General Counsel	Since 1 January 2012, all accepted offers by the Commissioner and Chief Officers were published, with quarterly updates. A list of all Olympic and Paralympic Games related hospitality offered to all members of staff was also published .
Review the results of the exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.	General Counsel	Completed with the results being incorporated into the Annual Report.
Create a plan for the development of a TfL wide integrated Management System including the creation of a single TfL intranet. Develop and publish those items identified in the plan.	General Counsel	Development work has been undertaken and implementation of a TfL wide management system has commenced.
Create a TfL wide integrated project management methodology.	MD Finance	TfL Pathway has been launched.

Proposed Activity	Responsible Chief Officer	Commentary
Implement structures and systems to ensure that TfL meets the requirements of the Data Transparency Code including publication of information as necessary.	General Counsel	Job descriptions and salary bands for all senior managers were published on the external website.
Re-launch of the independent external reporting line (SafeLine).	General Counsel	This was done, with posters displayed in all TfL buildings and on Source. The on line magazines On The Move and Upfront will publish details of the scheme in their next editions. A competitive procurement exercise has commenced for the provision of the service from September 2013.
Implement the Integrated Assurance Plan and develop assurance maps for HR, IM and Finance.	General Counsel	The Integrated Assurance Plan for 2013-2014 was approved by the Audit and Assurance Committee. Assurance maps for HR and IM were completed and work on Finance is planned.

Improvement Plan 2013/14

Proposed Activity	Responsible Chief Officer
Ongoing implementation of the agreed recommendations of the Board effectiveness review 2012.	General Counsel
Commence the publication of the Commissioner and Chief Officers' expense claims.	General Counsel
Extend the publication of the Gifts and Hospitality Register on the TfL website to Members.	General Counsel
Implement the annual exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.	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
Implement the Integrated Assurance Plan and develop assurance maps for project assurance, health and safety and efficiencies.	General Counsel
Integrate strategic risk management into the assurance process.	MD, Finance
Implement a system of regular review of the membership of the centrally maintained gifts and hospitality register.	General Counsel
Introduce improvements in the presentation of financial information to customers and stakeholders.	MD, Finance
Implement revised project performance monitoring reporting.	MD, Finance
Communicate and embed TfL's integrated project management methodology, TfL Pathway.	MD, Finance
Improve strategic risk reporting	MD, Finance
Establish the Customer, People and Value Groups	MD, Customer Experience
Establish Programme Boards across TfL's major programmes	MD, London Underground