Audit and Assurance Committee

TRANSPORT FOR LONDON
EVERY JOURNEY MATTERS

Date: **18 June 2014**

Item 17:   **Strategic Risk Management and Assurance Annual Report 2013/14**

This paper will be considered in public

1   Summary

1.1   The purpose of this paper is to report a summary of the key strategic risk management activity undertaken within TfL up to March 2014. The report, with the Committee's views, will be considered by the Board on 3 July 2014.

1.2   This paper should be read in conjunction with the Quarter 4 Strategic Risk Management updates, which provide a fuller description of the individual risks and mitigations.

2   Recommendation

2.1   **That the Committee note the report.**

3   Background

3.1   Following the Specialist Services re-organisation, TfL initiated a review to identify the underlying principles and reporting requirements that would support a pan TfL strategic non-project risk management process. The key objective was to establish a single non-project risk management approach, supported by a common platform, to enable more effective identification, management and reporting of all of TfL's significant risks to safeguard the delivery of TfL's strategic objectives.

3.2   The TfL review also incorporated the recommendations that were made following the 2012 review of Board effectiveness. The Board Effectiveness review included a benchmarking exercise against the UK Corporate Governance Code 2010 by Internal Audit. The proposed changes included suggested revisions to the overall TfL risk review, reporting and management processes.

3.3   Within TfL the changes to risk management have effectively been implemented in two main tranches.

3.4   Stage 1 focused on the delivery of a number of key short-term opportunities necessary to underpin the longer-term objectives. The Audit and Assurance Committee endorsed this plan of action during the financial year 2012/13, as set out in section 4 of this paper.

3.5   Stage 2 will encompass deliverables associated with more fundamental, long-term change requirements. The Audit and Assurance Committee endorsed these proposals on 5 March 2014, as set out in section 5 of this paper.

4   Stage 1 – Risk Management Development to 2013/14

4.1   The primary focus of the development activity that occurred within TfL during this period was the launch of a programme to develop and integrate a TfL wide strategic, tactical and operational non-project process and reporting framework. The programme was designed to support the identification and capture of the key risks that could affect the delivery of TfL's strategic objectives drawn from the existing Business Area review and assurance processes and mitigations actions.

4.2   The key business changes initiated within TfL during this period included:

(a) greater challenge of risk mitigation management;

(b) the introduction of the TfL Strategic Risk Register (SRR) and TfL Quantified Strategic Risk Schedule (QSRS);

(c) a programme to integrate risk into the financial review and validation cycles across the organisation; and

(d) the development and implementation of a pan TfL framework for the management of risk.

5   Stage 2 – Risk Management Framework from 2014/15

5.1   The TfL Risk Development strategy was endorsed by the Audit and Assurance Committee on 5 March 2014. The strategy outlined the new pan TfL Risk Management framework which will cover operational and strategic risk management of non-project activities across the organisation.

5.2   The key business changes associated with this change will include:

(a) a programme of cultural change to support the further integration of risk management within the organisation;

(b) the introduction of a holistic risk management framework to include project risk;

(c) revisions to TfL risk governance, including amendments to the risk policy and risk work instructions; and

(d) embedding risk into the business planning cycle; and the Introduction of improved management tools and reporting for all key decision makers.

6 Overview of the Strategic Risks Reviewed by the AAC During 2013/14

6.1 The Strategic Risks Reviewed report is reviewed and challenged by the Audit and Assurance Committee as part of its quarterly meeting.

6.2 Due to effective management, the current and target status of the majority of the TfL strategic risks reported throughout 2013/14 were stable; noteworthy developments associated with the key risks reported during this period are set out below. If TfL proposes to introduce any new measures associated with the below risks, funding will be considered through the Business Planning round:

Status Changes During 2013/14

(a) While the current status of the disruption to the quality of service risk remained at 'Medium', the target improved from 'Medium' to 'Low' in Quarter 4, 2013/14. London Underground is on track to deliver the Mayoral target to reduce lost customer hours by 30 per cent by 2015;

(b) The risk of an unfavourable environmental impact due to delivering a transport service has also improved over the course of the year, moving between Quarter 1 and 2 of 2013/14, from a current status of 'High' which was revised to 'Medium, and a target status of 'Medium' which was improved to 'Low'. The mitigation plans include bringing bus fleet emissions in line with the agreed standards by 2015 in support of the UK Governments targeted NO_2 air quality improvement pledge;

(c) The current status of the TfL people strategy risk worsened in Quarter 2, 2013/14 from 'Low' to 'Medium'. This reflected the people challenges of delivering the New Savings Programme. The target status remained stable at 'Very Low' throughout the year;

New Risk Added During 2013/14

(d) The risk of the failure of critical IT systems was added to the SRR in Quarter 3, 2013/14. The current status of the risk was reported as 'Medium' during the third and fourth quarters of 2013/14, and the target was held at 'Low'. The current status reflects the ongoing work to develop a comprehensive register of possible technology and systems risks across TfL;

(e) The risk of an information or cyber security incident on key services that support business and or network operations was also added to the SRR in quarter 3, 2013/14. The current status of the risk was reported as 'High' over the period, and the target was held as 'Low'. The current status reflects the early stage of the mitigating actions;

Other Key Developments

(f) The current status of the risk associated with maintaining a long term strategic, balanced plan within the constraints of available resources remained at 'High' and the target was held at 'Medium' throughout 2013/14.

This reflected the ongoing volatility of the funding environment, which challenged the deliverability of TfL's long-term strategic plan. The status was held constant, partially as result of the addition of two mitigating actions which were introduced to increase focus on the TfL wide non-fares income target – the Commercial Development programme, and the TfL cash management processes;

(g)   The current status of the risk associated with the delivery of the capital investment portfolio remained at 'Medium', and the target at 'Low' over the period. This reflects the potentially favourable impact of the mitigations associated with the Rail and Underground and Surface Transport organisational changes;

(h)   The major events risk remained stable over 2013/14. A pan TfL events team has been established to further enhance the comprehensive event management processes within TfL;

(i)   The managing external stakeholders interests risk remained stable over the year. Surface Transport confirmed a new three year plan which will include the incorporation of stakeholder management as part of the Local Implementation Plan (LIP) approval process; and

(j)   The current status of the Industrial Relations risk remained at 'High' and the target status was held at 'Medium' throughout 2013/14.

6.3   The QSRS is reviewed and challenged by the Audit and Assurance Committee as part of the quarterly meeting. Notable changes to the risks reported during 2013/14 are as below:

Status Changes During 2013/14

(a)   Over the course of the year the estimated value of the financial exposure associated with the risk of maintaining a long term strategic, balanced plan within the constraints of available resources to 2021/22 showed an improvement of eight per cent, or around £320m. This is due in part to additional mitigations introduced to safeguard funding streams.

New Risk Added During 2013/14

(b)   The financial exposure associated with the risk of an information or cyber security incident on key services that support business and or network operations was added to the QSRS in quarter 4, 2013/14. The estimated monetary value to 2021/22 was reported as £116m.

7 Integration of Risk into the Assurance Framework

7.1 Risk management within TfL supports the assurance function. Risk is the basis for all of the assurance activities carried out by the other functions.

7.2 All TfL assurance activity is risk-based, and the Integrated Assurance Plan takes as its basis the SRR. For 2013/14, the SRR was also integrated into the annual TfL audit planning process.

7.3 To check that adequate and appropriate assurance exists for its strategic risks, TfL has adopted the use of Assurance Maps. Assurance Maps provide a simple means of mapping sources of assurance to strategic risks and indicating the strength of the available assurance, thereby highlighting areas of potential under or over-assurance. The preparation and use of Assurance Maps is an intrinsic element of TfL's processes for strategic risk management.

List of appendices to this report:

None

List of Background Papers:

Strategic Risk Management Update – Quarter 1, 2, 3 and 4

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