

**Board**



**Date:** 19 July 2017

**Item:** Strategic Risk Management and Assurance Annual Report 2016/17

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**This paper will be considered in public**

## **1 Summary**

<b>Decision required</b>	Following consideration by the Audit and Assurance Committee, the Board will be asked to note the report.
<b>Sponsoring Director</b>	Contact Officer: Ian Nunn, Chief Finance Officer Number: 020 3054 8941 Email: <a href="mailto:IanNunn@tfl.gov.uk">IanNunn@tfl.gov.uk</a>
<b>Information classification</b>	Public.
<b>Summary</b>	
<ul style="list-style-type: none"><li>• The paper summarises the key Strategic Risk Management in TfL up to June 2017. It sets out the changes to the Risks during 2016/17 through engagement with the Audit and Assurance Committee, the Executive Committee and Internal and External Audit.</li><li>• The paper describes the risk management and risk assurance framework, which will see Risk Management work closely with the Internal Audit and Assurance functions, ensuring an integrated approach and the next steps for developing TfL's approach to risk. The longer term objective is to ensure that TfL achieve an "advanced" risk maturity target state which is comparable with external organisations.</li><li>• This report will be considered by the Audit and Assurance Committee at its meeting on 13 July 2017 and the views of the Committee will be reported to this meeting.</li></ul>	

## **2 Recommendation**

**2.1 The Board is asked to note the report.**

## **3 Background**

**3.1** We have made significant progress in Strategic Risk Management over the past eighteen months.

**3.2** Our objective has been to bring together and simplify Strategic Risk activities across the organisation, and improve the quality of our information to enable management to better focus on the key Strategic Risks. This has helped provide benefits that include greater likelihood of achieving strategic objectives, more

systematic decision-making leading to better quality decisions and prioritised investment in the control infrastructure.

- 3.3 We have worked closely with the Executive Committee, Audit and Assurance Committee and key stakeholders across TfL to ensure that we adopt a continuous improvement approach to risk management and embed this across the organisation as good business practice.

## **4 Changes to the Strategic Risk Management Process during 2016/17**

- 4.1 Early last year we worked on developing our approach to Strategic Risk Management and suggested improvements to the Strategic Risk reporting documentation. These proposed changes were endorsed by the Executive Committee, and subsequently the Audit and Assurance Committee at the March 2016 meeting.
- 4.2 A follow-up interactive ‘workshop’ session was held at an Executive Committee Away Day in March 2016, which was facilitated by a risk specialist from Ernst & Young LLP (EY). The key purpose of this session was to engage the Executive Committee in agreeing the list of key Strategic Risks facing TfL. This provided the opportunity for the Executive Committee to determine the key Strategic Risks in their area, as well as consider the broader pan TfL perspective. In this session, it was agreed that there would be one set of Strategic risks for the whole of TfL and a “top down” approach would be followed.
- 4.3 After consolidating output from this workshop, Group Risk and EY worked together to draft the updated set of Strategic Risks facing TfL which are closely linked with TfL’s Strategic Priorities. This updated list of Strategic Risks was agreed by the Executive Committee prior to submission to the June 2016 Audit and Assurance Committee Meeting. Although the list of Strategic Risks was endorsed by the Committee, they proposed changes to the Strategic Risk wording, including less negative framing of Strategic Risk titles.
- 4.4 Group Risk worked with the Executive Committee to incorporate these changes, ensured appropriate risk owners were assigned to the TfL Strategic Risks, and further developed these risks. The detailed Strategic Risk reports include risk assessments and current and future mitigation activity for each of the Strategic Risks.
- 4.5 During this time, we also discussed changes in Strategic Risk Management with key stakeholders across TfL in the form of workshops, briefings at Leadership team meetings and a Strategic Risk Management paper distributed in July 2016. In particular, we explained that as there will now be only one set of Strategic Risks for the whole of TfL, this will impact the local risk approach in each of the Delivery Businesses and Professional Services. Communicating these changes supported improved awareness and understanding of Risk Management across the Business and ensured that a consistent approach was taken.
- 4.6 A Strategic Risk Workshop, facilitated by EY was held with the new Audit and Assurance Committee in October 2016 to discuss and review the updated list of Strategic Risks. In this session, Strategic Risks were divided into three sections:

Operational, Financial and Stakeholder and External and Structural, with Executive Committee members present to discuss the Strategic Risks that they own. This was a very useful session and feedback was positive, with all the key Strategic Risks being captured.

- 4.7 The one Strategic Risk which the Audit and Assurance Committee requested we take a further look at is the environmental risk, as they were keen to ensure that this area receives the focus it deserves. Changes to this risk were subsequently made for the Strategic Risk Reporting Update at the March 2017 Audit and Assurance Committee meeting.
- 4.8 In the Strategic Risk workshop, we discussed the Two Year Risk Management Roadmap for TfL and the Audit and Assurance Committee requested that we prioritise defining our Risk Appetite. We have subsequently worked with EY on two projects as part of our Risk Management Roadmap: Risk As is Analysis and Risk Appetite.
- 4.9 As a result of recent efforts, we had greater awareness of the most significant risks facing TfL but wanted to enhance our understanding of how risk management is undertaken in other areas of the organisation, to include people, processes and systems. The objectives of Risk As is Analysis are to produce a “photograph” or snapshot of risk management in TfL, and benchmark TfL’s risk management against industry peers, providing recommendations and comparisons with best practice. The aim of this project was to bring clarity to the current risk management structure, which was particularly insightful at the time of the TfL Transformation Programme.
- 4.10 Our work on Risk Appetite aimed to explore how much risk TfL is willing to take to meet our strategic goals and how this should guide decision making. We have worked closely on this with the Executive Committee, and presented outputs at an Executive Committee meeting prior to discussing at a Risk Appetite Session with TfL Board Members on 4 April 2017. This session was chaired by the Chair of the Audit and Assurance Committee and facilitated by a risk specialist from EY. We had a very interactive and insightful discussion covering the approach we have taken, and looked at a variety of themes against which we set risk appetite levels.

## **5 Risk Management Governance**

- 5.1 We have continued to work with members of the Executive Committee on their Strategic Risks, and from 2017, a Strategic Risk Management update report is provided to the Audit and Assurance Committee each quarter. This report has an Executive Summary communicating key changes, illustrates how the Strategic Risks link with the Strategic Priorities and show how the risks are positioned on the Risk Matrix.
- 5.2 The Strategic Risk Update also includes a summary of the Strategic Risks, the Inherent, Residual and Target Risk Assessments and a Risk Trend (shown by arrow direction). The risk trend is a qualitative analysis which indicates how the risk climate is evolving – i.e. whether it is improving, stable or deteriorating. This does not necessarily indicate a change in risk assessments, and can reflect a change in the control environment or current context.

- 5.3 We are in the process of the Corporate Assurance Transformation Programme, and key changes will be made to the governance of Risk Management in TfL. Some proposed changes that we are considering include:
- (a) Creating a risk charter to clearly define the roles and responsibilities of the Executive Committee
  - (b) Defining and communicating risk strategy to ensure that team members are aware of how the organisation deals with risk and
  - (c) Implementing a Risk Oversight Committee which is authorised and accountable to the Executive Committee. This Committee will meet on a periodic basis to monitor risk mitigation activities, Key Risk Indicators and the effectiveness of these activities.

## **6 Risk Management and Assurance Framework**

- 6.1 Going forward our objective for Risk Management is to work closely with the Internal Audit and Assurance functions, ensuring an integrated approach. This will be helped by the Corporate Assurance element of the Transformation programme which aims to bring Strategic and Operational Risk Management, Internal Audit, Project Assurance and Fraud Prevention activities together to form a single risk and assurance function in General Counsel. By doing this we intend to provide effective oversight of our risk, audit, assurance and fraud management activities to provide focused, integrated and high quality assurance, with improved visibility of information and better support for our organisation's decision making processes.
- 6.2 The combined directorate will improve the integration and coordination of these functions, allowing for the assurance and audit plans to be more closely integrated with the TfL Strategic Risks. Similarly, the audit and assurance outputs will identify thematic risks and issues that may influence the Strategic Risk Register.
- 6.3 We have engaged with senior members of the Internal and External audit teams to ensure they are kept up to date with changes to Strategic Risk Management. Our longer term plan is that Internal Audit prioritisation is driven by the risk assessments detailed in the Strategic Risk Management reports.
- 6.4 After the Corporate Assurance Transformation, the Assurance function will be creating Assurance Maps. The objective of Assurance Maps is to provide a means of mapping sources of assurance to risks, indicating the strength of available assurance. We aim to work closer with the Assurance function to determine how Assurance maps can practically add value to our risk management processes going forward.

## **7 Next Steps – Post June 2017**

- 7.1 Our next steps include consolidating the outputs from the Risk Appetite Session with the TfL Board, refining the Risk Appetite themes and levels and playing this back to TfL Board and Executive Committee for their agreement.

- 7.2 We will also bring Risk Appetite to life and start considering Key Risk Indicators, which will track delivery of Risk Appetite themes across the whole of TfL. Key Risk Indicators are metrics that provide information on the level of exposure to a given risk which the organisation has at a particular point in time. In order to provide this information the risk indicator has to have an explicit relationship to the specific risk whose exposure it represents. Key Risk Indicators are a useful tool as they enable us to better monitor and control the risk. We intend to report Key Risk Indicators on a regular basis, in a clear and understandable format.
- 7.3 Our longer term objective is to ensure that TfL achieve an "advanced" risk maturity target state which is comparable with external organisations. We will start identifying the next layer of Strategic, Operational, Project and Programme risks throughout the Delivery Businesses and Professional Services and develop a clear understanding of how they fit together with the TfL Strategic Risks.

**List of appendices to this report:**

None

**List of Background Papers:**

None

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