

**TRANSPORT FOR LONDON**

**AUDIT COMMITTEE**

**SUBJECT: STRATEGIC RISK MANAGEMENT ANNUAL REPORT 2009/10**

**DATE: 15 JUNE 2010**

---

**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to summarise Risk Management activity for the year ended 31 March 2010. The Committee is asked to note this paper.

**2 BACKGROUND**

2.1 TfL's strategic risk management arrangements involve a mature process that has been operating effectively over a number of years. A key objective is the identification and management of all strategic and significant risks.

2.2 All strategic risks are owned by the Commissioner and are identified and reviewed by the Chief Officers through an annual workshop. At modal level, the identification and management of significant business risks is the responsibility of Managing Directors and their management teams.

2.3 To co-ordinate these risks, and escalate them as necessary, TfL has in place a network of risk champions, or "Key Risk Representatives", across the various modes and directorates. Bridging the gap between the strategic and modal levels is a body called the Risk Management Group. This Group meets quarterly to review the status of the strategic risks, discuss emerging risks and facilitate consensus on any risks that cut across one or more directorates. This process is integrated with the quarterly performance reporting timetable.

2.4 Risks are assessed and reported at a residual level – that is, taking into account controls and mitigations that are already in place. Risks are reported consistently on 5X5 heat maps, with arrows indicating movement of risks from period to period. A strategic risk appetite model is in place at a corporate level. This is the first step in promulgating the use of a risk appetite across the organisation. With a risk appetite in place, indicating the level of risk that is acceptable, a "target risk level" can be set for all risks. Actions can then be identified to manage the risk down to the acceptable target level.

### **3 ACHIEVEMENTS THIS YEAR**

#### **Risk Award**

- 3.1 The Corporate Governance and Risk Management team recently won an award at the 2010 European Risk Management Awards organised by StrategicRISK magazine. The winning category was Best Risk Management Approach in the Public Sector. In addition to the winning entry, TfL was also shortlisted in the Enterprise-Wide Risk Programme of the Year category. One of the reasons highlighted by the judges as to why TfL was selected as winner was the approach to ensuring that effective risk management is an integral part of the overall corporate governance arrangements.

#### **Strategic Risk Review**

- 3.2 In line with best practice, and to ensure that the maturing needs of the organisation are met, the strategy for TfL risk management has been comprehensively reviewed during the year. A number of areas have been identified where risk management could be enhanced or further embedded into the culture and operations of the organisation. These areas include better use of quantification and modelling techniques and greater alignment of the strategic risk management approach with other key processes such as business planning and performance monitoring. The revised risk management strategy arising from this review is in the final stages of internal consultation. The strategy will be reported to the Committee at its September meeting.

#### **Training**

- 3.3 During the year, a programme of work aimed at improving the general level of understanding of risk management across the organisation has continued for all levels of expertise.

#### **Risk Assessment**

- 3.4 The TfL Strategic Risk Map continues to be reviewed quarterly by the Risk Management Group. There have been no significant changes to the status of the risks during the last quarter. However, the names of the strategic risks have been thoroughly revised and updated to bring them into line with the names used at modal level.
- 3.5 Support has been provided across TfL in identifying and appropriately mitigating business risks. This has included facilitating a range of workshops working with the TfL Games Coordinating team in developing a process and framework for assessing and escalating risks with the London 2012 Olympic and Paralympic Games.

## **4 ACTIVE RISK MANAGER SOFTWARE**

- 4.1 Significant progress has been made in broadening the user base across the Group of the preferred risk management software – Active Risk Manager (ARM) - so that significant risks may be more easily escalated and systemic risk issues are more likely to be picked up. Another key benefit arising from use of a common system is the improved consistency and comparability of data across business units, modes and directorates.
- 4.2 There has been a concerted promotion campaign to extend the use of ARM across the Group. TfL has also included an introduction to ARM as part of its Business Manager Risk Training module. There are now 1,192 staff across the business with ARM access. This represents a significant increase on last year's figure of 685, partly accounted for by the inclusion of the former Metronet ARM users.

## **5 CONTROL RISK SELF-ASSURANCE (CRSA) 2009/10**

- 5.1 Control Risk Self Assurance is a technique requiring management to provide assurance that key controls are operating effectively across a whole process. The annual CRSA returns are open to review by internal and external auditors to ensure they are in line with audit findings during the year. The results of the CRSA process are used to focus audit efforts during the year. London Underground also have a 'statements of internal control' process which complements CRSA and is similarly subject to Internal Audit review.
- 5.2 The CRSA programme covers Payroll, Procurement, Financial Accounts and HRS Processes, Information Management, TfL Pensions and Risk Management. The last three processes were introduced for the 2009/10 programme. No significant control weaknesses or omissions were reported as a result of this year's review.
- 5.3 The scope of the CRSA is to be further extended during 2010/11, taking in the areas of Business Planning, Asset Management (excluding Property) and revenue collection.

## **6 RECOMMENDATION**

- 6.1 The Audit Committee is recommended to NOTE this paper.

## **7 CONTACT**

- 7.1 Contact: John Burton, Head of Corporate Governance and Risk Management  
Number: 020 7126 3026  
Email: [JohnBurton@tfl.gov.uk](mailto:JohnBurton@tfl.gov.uk)