Finance and Policy Committee

Date: **22 January 2015**

Item 5: **Review of the Assurance and Approval Processes applicable to Investment Projects**

This paper will be considered in public

1   Summary

1.1   On 17 July 2014, the Committee established a Sub-Committee to review the KPMG Lessons Learnt Review of the Sub Surface Upgrade Programme Automatic Train Control contract, and management response, with a focus on the decision making and assurance processes.

1.2   At its meetings on 20 August and 16 December 2014, the Sub-Committee agreed that TfL should aspire to a robust 'best in class' programme assurance process, led by the TfL Programme Management Office (PMO). The Sub-Committee asked the Managing Director, Finance to commission a thorough benchmarking exercise to compare TfL's programme assurance review process to its peers. This would include a review of who was involved in assurance reviews and the flexibility (scope, depth and frequency) of assurance processes in relation to the diversity of projects within TfL. The exercise would also seek to address the Independent Investment Programme Advisory Group's (IIPAG's) recommendation on strengthening the independence of the PMO.

1.3   The findings and recommendations of the benchmarking exercise, along with recommendations from the IIPAG, were considered by the Committee at its meeting on 25 November 2014. This paper lists those recommendations considered by the Committee, outlines how these will be achieved, and proposes an implementation plan.

2   Recommendation

2.1   The Committee is asked to note and approve this paper and implementation plan.

3   Background

3.1   An independent consultant (E C Harris) was commissioned to carry out the benchmarking exercise. A number of companies were approached to understand their assurance arrangements, and to establish best practice. In addition, published academic guidance and assurance best practice from sources including the National Audit Office, Cabinet Office and Association for Project Management was reviewed.

3.2   The benchmarking considered and compared the three lines of assurance/defence in TfL with those of its peers. The three lines of defence are described below:

(a)   First line of defence: Typically provided by the project delivery organisation, to provide confidence that the project is ready to move to the next stage. Assurance is usually provided at pre-defined project lifecycle stage gates, which are checks on the completeness of the work expected at that stage of the project. The stage gates are staffed by the sponsor and delivery personnel either from within the project or from a peer project. At TfL this process is defined in Pathway, TfL's methodology. In addition to the stage gate reviews, periodic performance reporting is reviewed to provide confidence in the progress of the projects. The output of the review is a recommendation as to whether the project should proceed to the next stage.

(b)   Second line of defence: Typically provided by reviewers independent of the delivery organisation, but from within the same company. This role is fulfilled by the PMO at TfL, and is delivered as Integrated Assurance Reviews (IAR). Approximately 120 IARs are conducted per year, at pre-defined lifecycle stages normally in line with the main Pathway Stage Gates (Initiation, Single option, Pre-Tender, Contract Award and Close). The IARs normally cover projects costing over £5m and review the readiness of the project to move to the next stage and/or be granted funding. Reviews assess the project against a number of lines of enquiry appropriate to the nature and stage of the project. These reviews are managed by the PMO, with approximately 80 per cent using external consultants. The remainder are conducted using peer review teams or PMO staff. The output of the review is a recommendation as to whether the project should proceed to the next stage.

(c)   Third line of defence: Typically provided by external reviewers, independent of the company. This role is fulfilled by the IIPAG at TfL, which takes part in approximately 40 PMO IAR reviews per year, normally covering projects costing over £50m. The findings of the second line of defence reviewers are shared with the IIPAG, which usually supports and adds to those findings, although occasionally the IIPAG makes different recommendations. The IIPAG also conducts several Interim Reviews per year, largely focused on the progress of large projects once on site. The IIPAG remains independent of both the delivery organisations and the PMO, and reports to both the Mayor and the Secretary of State for Transport.

3.3   The benchmarking exercise established that TfL Project Assurance structure is on a par with peers and differs mainly on the approach and capability, but also highlighted some opportunities to match the best practice found elsewhere. The recommendations from the benchmarking exercise, along with additional recommendations from the IIPAG, were noted by the Committee at its meeting on 25 November 2014 and are listed in section 4.

4   Proposals

4.1   The proposed changes outlined in this paper are intended meet the following **vision for assurance**:

(a)   To create an assurance function that is trusted to provide robust and constructive challenge to projects and programmes. To achieve this, the assurance function must be seen to be independent of delivery, to have the appropriate capability that is seen as credible by both the project teams and

the bodies to whom it provides advice, and to apply its resources to the right projects at the right time.

4.2 The following changes are proposed, broadly covering **organisational, structural and cultural** aspects:

Organisation

(a) Clarify the independence of the assurance function (second line of defence). With effect from 24 December 2014, the Assurance Team will move from joint reporting to the MD Finance and Capital Programme Director to sole reporting to the MD Finance (via the Chief Finance Officer).

(b) The technical capability of the assurance team (the second line of defence) will be enhanced through the recruitment of seasoned project professionals that are able to identify and assess issues across the key project management disciplines, including planning, commercial and risk management. The dependence on external consultants for reviews may reduce as a result and be focused on specialist engineering or systems disciplines as required.

(c) Financial and programme monitoring and reporting should be undertaken through the central Finance Directorate. This should be based upon a common reporting system used by the project directorates for their monthly reviews, including further development of project dashboards and the Quarterly Investment Programme Report.

(d) The Functional Heads for Value and Benefits and Business Case to report to the Finance Directorate as an internal consultancy unit supporting the Assurance process and providing guidance to the delivery business. (Post the Committee meeting, the IIPAG agreed that the Functional Head of Risk should remain in the delivery organisation, but would continue to serve the whole business.)

Structure

(e) The assurance processes will be more clearly defined across the three lines of defence. The first line of defence will be largely managed as now by the project teams, using standard project management controls and reporting processes.

(f) The second line of defence (managed by the Assurance Team) will improve the authority-based reviews, making them more proportionate to the project's risks and complexity. The current IAR process produces a standard report with similar outputs and costs, regardless of the scale, risk or complexity of the project. The IAR costs range from under £10,000 for smaller projects of £10m (0.1 per cent of the Estimated Final Cost (EFC)) to approximately £30,000 for larger programmes over £100m (0.03 per cent of the EFC).

(g) The scope and depth of reviews will be informed by a risk and complexity analysis using assessment tools already in place to assess the interfaces, system complexity, novelty and other key factors. The experience of the delivery team will also be considered. The resulting assurance plan will be more tailored to each project as a result, with more proportionate review effort for the larger more complex projects.

(h)   In addition to the IAR reviews at key stage Authority points (single option, tender, contract award), the second line of defence will include more continuous assurance for the larger projects (over £50m). An enhanced reporting and assurance function in the Finance Directorate will enable continuous scrutiny of reporting outputs, including the Periodic Progress Reports produced by most projects. Assurance staff may also attend key governance meetings, including the project or programme boards. By securing a continuous knowledge of the higher risk projects, the assurance team will be able to initiate reviews based on progress and emerging risks, perhaps focused on particular issues such as commercial management.

(i)   The third line of assurance is provided by the IIPAG. Of up to 120 IARs conducted per year, the IIPAG takes part in approximately 40, normally of projects costing over £50m. The IAR process is the same, but with the IIPAG attendance at the concluding Gate Review Meeting. Two reports are currently produced from these reviews (from PMO Assurance and the IIPAG) that sometimes duplicate content. It should be noted, however, that the IIPAG relies on the IARs conducted as part of the second line of assurance, using the External Expert report as a prime source of information. In this context, some duplication is inevitable because the third line of assurance (IIPAG) relies on the outputs of the second line of assurance (the IARs).

(j)   The current IIPAG reports normally endorse the findings of the Assurance team reports but also highlight the more strategic issues that are not limited to the project under review. In line with good practice, the IIPAG reports should remain wholly independent. Nevertheless, it may be possible to incorporate the two reports into one format owned by the IIPAG. In addition, the increased capability of the second line of defence may enable the IIPAG to focus more on systemic reviews and less on project reviews, while also conducting interim reviews independently of the PMO Assurance team.

Culture

(k)   The Pathway Project Management Framework sets out the IAR processes but the three lines of defence are not clearly explained in the documentation suite. As a result, the IARs are currently perceived as the bulk of project assurance. By establishing a clearer framework, based on the three lines of defence, assurance will be more embedded in project governance. The Pathway documentation and training modules will be revised to ensure that project managers and sponsors understand the role of assurance. Case study examples will illustrate the scalable approach, including a more continuous assurance presence for the larger projects.

(l)   The Pathway Integrated Assurance and Approvals Plan (IAAP) sets out the agreed assurance regime and review points throughout the project lifecycle. The IAAP will be enhanced to include the risk based and continuous assurance activity, providing a complete picture of all three lines of defence. Each IAAP should be formally approved by the Chief Finance Officer.

(m)   The IAAPs will be reviewed regularly and include the provision for reviews based on progress and emerging risks alongside the normal interventions. In this way, it is expected that assurance will be considered as a continuum, but with clear trigger points for specific reviews.

4.3　The IIPAG recommended transferring the remainder of the current PMO into the delivery organisation. This will be achieved through the formation of a delivery PMO, with joint reporting lines to the directors of the LU Capital Programme Directorate (CPD) and the Surface Projects and Programmes Directorate (PPD). The delivery PMO will also support the rest of the project community including IM and Corporate. The delivery PMO will need to fulfil a number of activities not covered by the functions moving to the MD Finance. An analysis of services required by the delivery organisations has been initiated and is likely to include the following:

(a)　strengthened first line of defence through additional peer reviews and performance analysis. This will include enhanced project performance reporting, monitoring and analysis, enabled by new Integrated Project Controls systems and processes. Additional complexity and risk based assessments to establish the frequency of peer reviews will also be implemented;

(b)　portfolio level (CPD and PPD) reporting and analysis. The emphasis on constructively challenging Project Teams' reports by Project Controls staff to get early warning on issues for positive escalation will be enhanced;

(c)　project management systems management, development and training;

(d)　project management skills development, training, resource forecasting, planning and rotation;

(e)　knowledge management capture and facilitated sharing;

(f)　graduate and apprentice scheme management;

(g)　development of Pathway;

(h)　benchmarking; and

(i)　management of a number of improvement programmes as required.

5　Implementation

5.1　Appendix 1 sets out the proposed implementation timetable to deliver the above proposals.

List of appendices to this report:

Appendix 1: Implementation Plan

List of background papers:

Papers submitted to the meeting of the Committee on 25 November 2014 and to the meetings of the Sub-Committee on 20 August and 16 December 2014.

Contact Officer:　Steve Allen, Managing Director, Finance
Telephone:　020 3054 8907
Email:　StephenAllen@tfl.gov.uk

Implementation Plan

Proposal ref.	Activity	Date completed
3.1 a	Move the assurance function from joint reporting to the MD Finance and Capital Programme Director to sole reporting to the MD Finance (via the Chief Finance Officer)	24 December 2014
3.1 b	Define skillsets and staff needed to populate the enhanced Assurance team, create JDs and recruitment material	28 February 2015
3.1 b	Advertise Assurance team posts	28 February 2015
3.1 c/d	Define and implement processes to better integrate Assurance with Reporting and feedback through the Centre of Excellence, including a structured approach to knowledge sharing	30 April 2015
3.1 e	Develop and implement processes to enable a risk based model that develops assurance plans proportionate with the complexity of, and risks associated with the project	30 April 2015
3.1 b	Recruit and/or second required staff to assurance team (subject to notice periods)	30 April 2015
3.1 f	Identify and move reporting resources from joint reporting to the MD Finance and Capital Programme Director to sole reporting to the MD Finance in order to collate and produce the Investment Programme Report (IPR)	30 March 2015
3.1 f	Develop and implement processes to ensure regular monitoring of programmes in order to inform risk based assurance activity	30 March 2015
3.1 g	Establish and consult on proposed organisational structure to include assurance, IPR reporting and Functional Heads of Value and Benefits and Business Case	28 February 2015
3.1 g	Move Functional Heads of Value and Benefits and Business Case from joint reporting to the MD Finance and Capital Programme Director to sole reporting to the MD Finance	30 March 2015
4.2	Review business needs for the delivery PMO, and form an organisation with appropriate skills	30 April 2015