

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: REVIEW OF GOVERNANCE AND THE ANNUAL GOVERNANCE STATEMENT FOR YEAR ENDED 31 MARCH 2011**

**DATE: 15 JUNE 2011**

---

**1 PURPOSE AND DECISION REQUIRED**

- 1.1 This paper provides a review of compliance with the TfL Code of Governance in 2010/11 and asks the Audit 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 2010/11 accounts.

**2 BACKGROUND**

- 2.1 The Accounts and Audit (England) Regulations 2011 require that TfL's Statement of Annual Accounts include 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.
- 2.2 The Audit 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.
- 2.3 The Annual Governance Statement follows a template provided in the CIPFA/SOLACE guidance.

**3 2010/11 REVIEW AND THE ANNUAL GOVERNANCE STATEMENT**

**2010/11 Review**

- 3.1 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.
- 3.2 The 2009/10 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 introduction of consistent policies across the organisation for the declaration and reporting of gifts and hospitality, a revised process for the approval, recording and update of policies and the effective incorporation of Tube Lines companies into appropriate governance arrangements.

## **The Annual Governance Statement**

- 3.3 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 gives a brief description of the monitoring process to ensure the effectiveness of the Code of Governance. The draft Annual Governance Statement is included as Appendix 1.
- 3.4 There were no significant governance issues that needed to be highlighted in the Annual Governance Statement arising from the 2010/11 review. However, there are areas identified in the Annual Governance Statement relating to matters that need to be kept under review in 2011/12.

## **Governance Issues in 2010/11**

- 3.5 The 2010/11 review confirms that TfL continues to achieve a steady improvement in corporate governance as TfL's structure and procedures have developed and matured. The assessments of compliance with each individual undertaking have not changed between 2009/10 and 2010/11.
- 3.6 There were a number of significant developments in relation to TfL's governance during 2010/11. These included:
- (a) the agreement to streamline project approval arrangements across the Group;
  - (b) the integration of the activities formerly undertaken by the Tube Lines companies into the TfL governance framework;
  - (c) the implementation of revised project challenge and review arrangements including the expanded remit of the Independent Investment Programme Advisory Group; and
  - (d) publication of individual transactions over the value of £500 for the purchase of goods and services in line with the Government's Transparency Agenda.

## **Improvement Plan**

- 3.7 An Improvement Plan to ensure the steady improvement of TfL's governance was prepared for 2010/11. Appendix 2 provides a commentary on progress in delivering each action identified. Appendix 3 includes an Improvement Plan for 2011/12. This includes specific responses to the Government's Transparency Agenda, proposals arising from the Department for Communities and Local Government (DCLG) consultation on Audit Committees, and the provisions of the Localism Bill.

## **4 RECOMMENDATION**

- 4.1 The Committee is asked to 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 2010/11 accounts.

## **5 CONTACT**

- 5.1 Contact: Howard Carter, General Counsel  
Number: 020 7126 4097  
Email: [HowardCarter@tfl.gov.uk](mailto:HowardCarter@tfl.gov.uk)

## **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.

TfL has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/ SOLACE Framework Delivering Good Governance in Local Government.

A copy of the TfL Code of Governance is on our website at [www.tfl.gov.uk](http://www.tfl.gov.uk) or can be obtained from the Head of Corporate Governance and Risk Management, 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 and processes, and 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 2010/11 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 four committees:

- Finance and Policy;
- Audit;
- Remuneration; and
- Safety, Health and Environment Assurance.

There are three 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; and
- Environment, Corporate and Planning.

The Audit 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 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 officers with clear delegation arrangements and protocols by:

- Having a documented scheme of delegation that reserves appropriate responsibilities to the Board and provides officers with the authority to conduct routine business; and
- Having the roles and responsibilities of Board members and senior officers clearly documented.

TfL has developed and communicates the requirements of the Code of Conduct, defining the standards of behaviour for 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 members and staff, between 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 members and officers 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 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 members and staff at all levels recognising that risk management is part of their jobs.

TfL ensures that the core functions of the Audit Committee are delivered by:

- Having an effective, independent Audit Committee;
- Having the Audit Committee develop and maintain an effective standard of conduct overview;
- Having an internal audit department which complies with relevant professional standards;
- Having an internal audit plan that is driven by an annual evidenced assessment of the key business risks facing TfL; and
- Substantially completing the internal audit 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 officer 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 officer 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.

TfL identifies the development needs of members and officers in relation to their strategic roles, supported by appropriate training by:

- Ensuring that its Board members and officers 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 members and officers and committing to develop those skills to enable roles to be carried out effectively; 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;
- Co-operating 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.

The Chief Finance Officer (CFO) plays an active part in TfL strategic decision making. The CFO is appointed and removed by the Board, reviews all papers relating to financial management for the Chief Officers, Committees or Board in advance, attends all Board meetings and has unrestricted access to the Commissioner.

**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 officers 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 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.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to ensure continuous improvement of the system is in place.

**Significant governance issues**

Balancing the need to manage within the Government settlement and deliver the Mayor’s priorities is the most significant issue facing TfL and one that will continue to present a challenge to its management. Effective governance arrangements and senior officer oversight will be maintained to ensure appropriate and timely responses to such issues that arise.

Other issues to be addressed during the year relate to maintaining continued effective project delivery. One recent development that has provided a significant improvement in our oversight and delivery capability is the extended remit of the Independent Investment Programme Advisory Group (IIPAG). This group provides independent and impartial advice to the Board on all aspects of the delivery of the TfL Investment Programme, including maintenance, renewal, upgrades and major projects.

As a result of a major organisational review, more streamlined governance arrangements will be implemented. These include better integrated project approval arrangements within the overall TfL governance framework.

We propose over the coming year to continue to improve and develop our governance arrangements. We are confident that the current governance processes and planned developments will enable us to meet the challenges identified above.

Signed: .....

Chair of TfL Board

Signed: .....

Commissioner

Implementation of Improvement Plan 2010/11

Proposed Activity	Responsible Chief Officer	
<p>Introduce consistent policies across the organisation for the declaration and reporting of gifts and hospitality offered to staff by third parties. This will include an automated system for senior management and other key staff.</p>	<p>General Counsel</p>	<p>Revised policies are now in place and have been communicated across the Group.</p> <p>An automated Gifts and Hospitality Register has been established on General Counsel's Sharepoint site. The initial rollout of the automated system incorporates 200 senior officers, and will be increased in future releases.</p>
<p>Revise and streamline the process for approval and update of TfL policies. This process will provide assurance that all policies have proper ownership and have formal review and update cycles.</p>	<p>General Counsel</p>	<p>A paper has been produced identifying all published policies across the Group. A revised framework has been proposed to allow for ownership of these policies to be established and documented. Based upon this framework, a process will be introduced to ensure timely review and update of all formally agreed policies.</p> <p>As part of the organisational review, a company Management System is to be introduced which would include Group-wide policies.</p>
<p>The implementation of an Information Security Classification Standard for TfL, in a way that achieves the objective of improving TfL's capability to secure information with minimum impact on the business.</p>	<p>General Counsel</p>	<p>An Information Security Classification Standard has been implemented.</p>
<p>Automate the annual Control Risk Self-Assurance process. This assurance programme for key TfL processes is currently a paper-based exercise. A system will be introduced to enable on-line sign-off submissions.</p>	<p>General Counsel</p>	<p>This has been established and is available on the Risk Management sub-section of General Counsel's Sharepoint site.</p>

<b>Proposed Activity</b>	<b>Responsible Chief Officer</b>	
Secure agreement to a revised Strategic Risk Strategy and implement changes as necessary.	General Counsel	The Risk Strategy has been reviewed by Chief Officers and key elements have been implemented. This includes the introduction of revised terms of reference for the Risk Management Group.
Following the completion of the proposed acquisition of the shares in Tube Lines to TfL, ensure the effective incorporation of Tube Lines into appropriate governance arrangements.	General Counsel	<p>Appropriate governance arrangements have been aligned between TfL Corporate and Tube Lines.</p> <p>An Internal Audit report on governance arrangements within Tube Lines concluded that they were well controlled and the audit was closed.</p>
Implement the outcome of the Review by the Deputy Chairman of TfL's Committees and Panel arrangements.	General Counsel	The Board was updated as to the current status of the Review in June 2010.
Prepare and Implement revised guidance on the declaration of conflicts of interests for Members.	General Counsel	A Guidance Note was approved by Audit Committee and sent to Members in June 2010.
Publish the TfL Strategic Risk Map on the external website.	General Counsel	Following review by the Chief Officers of the revised Strategic Risk Strategy, it was decided to defer publication until a format for the Map is developed that includes more context on the risks reported.

## Improvement Plan 2011/12

<b>Proposed Activity</b>	<b>Responsible Chief Officer</b>
Provide regular reports to Chief Officers from the Gifts and Hospitality Register identifying both trends and hot spots in offers and acceptances across the Group.	General Counsel
Formally align strategic risk processes with the Business Planning cycle.	MD Finance
Ensure the continued reliability of TfL's external reporting system, SafeLine, through regular performance monitoring.	General Counsel
Continue to apply the requirements of TfL's information governance policies to TfL's information management systems, in order to promote the integrity, availability and confidentiality of information and ensure it is only retained for as long as is necessary.	General Counsel
Prepare for the implementation of the provisions of the Localism Bill, requiring TfL to conduct meetings of the Board and its Committees in public.	General Counsel
Implement governance proposals arising from the organisational review.	General Counsel
Implement any proposals arising from the Department for Communities and Local Government (DCLG) consultation on the future of local public audit.	General Counsel
Implement requirements of the Bribery Act 2010.	General Counsel
Implement any further requirements arising from the Government's Transparency Agenda.	General Counsel