

Date: 16 June 2015

**Item: Strategic Risk Management and Assurance Annual Report
2014/15**

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 2015. The report, with the Committee's views, will be considered by the Board on 1 July 2015.
- 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 The objective of Strategic Risk Management within TfL is to create a Risk Management culture and enhance the organisation's ability to deliver its strategic objectives through a consistent approach.
- 3.2 The process has been integrated through all areas of the business to ensure that risks are captured. These are then consolidated at group level.
- 3.3 TfL captures the Strategic Risks through the Strategic Risk Register (SRR) and the Quantified Strategic Risk Schedule (QSRS). The objective of the SRR is to capture the key risks through the thematic aggregation of the strategic Business Area level risks. The TfL QSRS quantifies where possible the risks included in the SRR.

**4 Changes to the Strategic Risk Management Process during
2014/15**

- 4.1 During Quarter 1 (Q1) 2014/15, a new pan-TfL SRR was implemented. It was designed to give greater focus on controls, actions and the potential impact on the risk status.
- 4.2 The risks that were reported during Quarter 4 2013/14 were reviewed and reassessed by the Strategic Risk Management Panel (SRMP) and remapped into seven new TfL Risks.

- 4.3 These risks allow stronger links to the strategic objectives and clearer distinction between controls and mitigating actions.
- 4.4 Due to implementation of the new format for the SRR an accurate like for like comparison against Q4 2013/14 is not possible.
- 4.5 The Strategic Risks are as follows:
- a) TFL01 – Maintaining a long term strategic, balanced plan;
 - b) TFL02 – People Risk;
 - c) TFL03 – Delivery of Capital Investment Portfolio;
 - d) TFL04 – Technology Risk;
 - e) TFL05 – Disruption to Quality of Service;
 - f) TFL06 – Targeting Continued Improvement; and
 - g) TFL07 – Major / Catastrophic Incident.
- 4.6 Risks are quantified and prioritised using the TfL Quantified Strategic Risk Schedule (QSRS) which allow risk to be integrated into the financial review and validation cycles across the organisation.
- 4.7 In 2015/16, a full review of the risks will be conducted, to ensure that risks in each business are aligned and the relevant controls and actions are reported to the Audit and Assurance Committee in the future.

5 Risk Management Governance

- 5.1 A TfL Risk Policy and Procedure document has been updated during the year and approved by the Audit and Assurance Committee at the meeting on 8 October 2014.
- 5.2 The process for updating the Strategic Risk Register includes quarterly updates from the business and review considered at monthly meetings of the Strategic Risk Management Panel (SRMP). An update report is provided to the Audit and Assurance Committee each quarter.
- 5.3 The Audit and Assurance Committee reviews one strategic risk in detail each quarter with input from the risk owner and responsible manager. In Quarter 2 People Risk was reviewed, in Quarter 3 Major/ Catastrophic Incident was the focus and Technology Risk in Q4.

6 Strategic Risk Update for 2014/15

- 6.1 The status of these risks as reported to the Audit and Assurance Committee is as follows:

TFL01 – Maintaining a long term strategic, balanced plan

- 6.2 The risk of maintaining a long term strategic, balanced plan has been scored as High due to the impact on TfL's business plan and the overall potential financial value if the risk materialised.
- 6.3 This risk has remained High throughout 2014/15 due to the unknowns relating to the government spending and savings and efficiencies targets, and will remain High in the lead up to Mayoral election due to a possible change in the Mayor's fare policy.
- 6.4 Additional actions and controls have been put in place to ensure this risk can be managed, including the implementation of a bottom-up business plan and a more advanced process for risk assessment of the savings and efficiencies programme.

TFL02 – People Risk

- 6.5 The risk of not delivering on the people risk has been considered as Medium throughout 2014/15. However, elements of this risk are considered high, such as industrial action and the effects of changes in the pensions regulations.

TFL03 – Delivery of Capital Investment Portfolio

- 6.6 The risk of not delivering the capital investment portfolio has been rated High and has remained high throughout the year. This is due to the potential impact on project milestones, including delivery dates and budgeted amounts.
- 6.7 Actions were added during the year to ensure that suppliers are periodically reviewed and for greater cooperation between the operational and project teams.

TFL04 – Technology Risk

- 6.8 The technology risk for TfL has been rated as Medium throughout 2014/15, however, there are components relating to a cyber security incident and loss of key information that are rated as Very High.
- 6.9 An investigation into the impact of a cyber incident on TfL is currently underway and the status is likely to be revised in 2015/16. Additional controls and action items are also expected to be added.

TFL05 – Disruption to Quality of Service

- 6.10 Due to increasing road congestion and projects such as Fit for the Future Stations transformation, the disruption to the quality of service had been rated as High throughout the year.
- 6.11 A number of key controls and actions have been put in place for these risks, such as strategic reviews of command, control, coordination and communications across Rail and Underground and additional Roads and Transport Enforcement Officers for road congestion to ensure these risk have been mitigated.

TFL06 – Targeting Continued Improvement

- 6.12 Targeting of continued improvement ensures that targets set by external stakeholders, such as the Mayor's Office, have been met. This includes air quality targets and safety targets.
- 6.13 This risk has been measured as Medium and maintained a Medium status throughout the year.

TFL07 – Major Catastrophe / Incident

- 6.14 The risk of a major catastrophe has been rated as Medium through 2014/15, with a number of mitigations in place to ensure impact on reputation and costs is reduced.

7 Risk Management and Assurance Framework

- 7.11 Risk Management within TfL supports the assurance function. Risk is the basis for all of the assurance activities carried out by the other functions.
- 7.12 All TfL assurance activity is risk-based, and forms the basis for the Strategic Risk Register, the annual internal audit planning process and the Integrated Assurance Plan.
- 7.13 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 Assurance Delivery Group is leading a programme of work to ensure that Assurance Maps are in place for key risk areas.
- 7.14 In conjunction with the Integrated Assurance Framework an updated Risk Management framework will further embed the principles that have already been established in the organisation. The risk management framework will aim to:
 - (a) Ensure risks are structured around the four pillars, Customer, Delivery, People and Value, which will provide a clear connection to TfL's strategic priorities and the Mayor's Transport Strategy goals.
 - (b) Work closely with customers and stakeholders to understand what their concerns are and how best to address these concerns.
 - (c) Ensure there is clear and coherent guidance to the organisation on how to manage risk. This will build on the Risk Management Awareness Training that is being conducted.
 - (d) Create a risk management culture where senior management demonstrates that risk management is important and encourages people to uncover risky areas.
 - (e) Ensure that risks can be calculated and measured against the risk appetite of the organisation. The risks can also ensure that strategic priorities are being addressed and Scorecard targets will be met.

- (f) Risk management will then be able to provide improved forecasts and ensure that all decisions are made with confidence, considering all options.

List of appendices to this report:

None

List of Background Papers:

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

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