

## Finance and Policy Committee

**Date:** 17 June 2015

**Item:** Review of the Assurance and Approval Processes applicable to Investment Projects – Progress Update

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**This paper will be considered in public**

### **1 Summary**

- 1.1 In 2014, the Committee established a Special Purpose 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. The Programme Management Office (PMO) commissioned a benchmarking exercise to establish best practice and to inform the new assurance framework for projects in TfL. The recommendations made by the Independent Investment Programme Advisory Group (IIPAG) were also incorporated into the final proposals, which were approved by the Committee in January 2015.
- 1.2 The proposals were grouped under three main headings: organisational, structural and cultural. This paper provides an update on the progress made since January.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the progress made since the proposals were approved in January 2015.**

### **3 Background**

- 3.1 The proposals are founded on the standard Three Lines of Defence assurance model established by the Institute of Internal Auditors and demonstrated by the best peers in the benchmarking study.
  - (a) First line of defence: Typically provided by the project delivery organisation;
  - (b) Second line of defence: Typically provided by reviewers independent of the delivery organisation, but from within the same company; and
  - (c) Third line of defence: Typically provided by external reviewers, independent of the company.
- 3.2 In adopting the Three Lines of Defence model, the role of the various project assurance providers in TfL has been clarified, with the progress made outlined in the following section.

## 4 Progress

### Organisation

- 4.1 A number of organisation moves were approved, particularly addressing the key requirement to clarify the independence of the assurance function, covering the second line of defence. With effect from 24 December 2014, the Project Assurance team moved from joint reporting to the Managing Director (MD) Finance and the London Underground Capital Programme Director to sole reporting to the MD Finance (via the Chief Finance Officer).
- 4.2 In addition, the Functional Heads for Value and Benefits and Business Cases moved to the MD Finance on 31 March 2015, reporting to the Head of Group Business Planning and Performance. Both functions will provide assurance support as well as guidance to the delivery business. The Functional Head of Risk has been retained within the PMO to focus on providing direct advice and support to project teams.
- 4.3 The original proposals also included moving programme monitoring and reporting to the central finance directorate. Following further detailed review by both the PMO and Finance, it was concluded that the preparation of the quarterly investment report is best carried out as close to the delivery business as possible, provided that the central finance function is able to ensure robust scrutiny of the outputs. Furthermore, the report production covers a small proportion of several roles, making a clean transfer difficult to achieve without introducing duplication. The investment reports will continue to be produced by the delivery directorates. A new Head of Performance and Reporting has been recruited to the PMO to provide stronger coordination of the multiple inputs for the reports.
- 4.4 In addition, a new Head of Risk has been appointed. Both recruits were external candidates, who have already added more energy and bring with them industry perspectives and behaviours. The finance Planning and Performance function has been strengthened to provide robust scrutiny, matching the level already applied to the operational reports by the same team.
- 4.5 The technical capability of the Project Assurance team is being strengthened by introducing a proposed revised team structure. The new team will be staffed largely by project professionals that are able to lead reviews as well as managing the review process. Up to nine review managers will report to three portfolio managers, each being responsible for the event-based reviews and the continuous assurance for a defined group of projects. The job descriptions are still under development but the portfolio managers should have at least 20 years of experience in delivering significant projects. The portfolio managers will hold responsibility for the review outputs, chairing the Gate Review Meetings and approving the final Assurance Review Reports.
- 4.6 External Experts, provided by a range of consultancies, will be retained but used more effectively. A review could be carried out entirely by the TfL team, by the External Expert, or by a mixture of the two. In most cases, the External Expert will provide specialist advice, with the generic project management aspects covered by the internal team. The External Expert costs are expected to remain at approximately £1.6m per year, allowing for deeper review of the more complex projects.

- 4.7 Up to two subject matter experts will be recruited to the team. The Commercial Assurance lead will be a senior role with extensive experience of procuring and managing large contracts. Business case assurance is currently provided by the same staff that guide and assist the sponsors in creating their business cases. Business cases will be reviewed in more detail for the more complex projects. The potential need for additional business case expertise, particularly for robust assurance, is being assessed. Now that the existing resource has moved to MD Finance and reports to the Head of Group Business Planning and Performance, the precise reporting arrangements are still under discussion. In any event, the independence of the business case assurance will be explicit.
- 4.8 The Project Assurance team structure is scalable, enabling further reviewers to be engaged if required. The proposed team size is based on the estimated assurance requirement for the Business Plan investment profile to 2024/25. The profile ranges from £2.6bn to £3.1bn – most variations in the assurance requirement will be managed by adjusting the use of External Experts.

### Structure

- 4.9 For the **First Line of Assurance**, work is now in progress to improve how the Pathway framework provides for assurance Gates at the end of each project stage. Peer reviews by senior managers will be carried out at the Gate, depending on size and complexity. A pilot senior review of a depot re-signalling project has concluded that not all the viable options had been fully considered, with the result that approval was deferred until the analysis was completed. The revised Gate and peer review approach will be introduced in the summer and rolled out across the organisation.
- 4.10 The project dashboard structure is being revised (with input from the IIPAG to ensure that they more intuitively highlight project status and any issues. Progress reports have also been restructured to provide a clearer fact-based summary of the key achievements and issues requiring management attention.
- 4.11 The **Second Line of Assurance** is managed by the Project Assurance team, now part of MD Finance. The current regime of event-based reviews will be expanded and improved.
- 4.12 In 2014/15, Project Assurance carried out 132 Integrated Assurance Reviews (IARs) on 110 projects. The IAR costs ranged 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). The revised approach has been modelled to provide moderate proportionality, allowing the more complex, higher risk projects to be reviewed in more depth.
- 4.13 Using the same population of 110 projects as a base, 157 reviews would be carried out on 91 of the projects. Each review will be scaled to the relative risk of the project, using a simple assessment matrix. The levels of scrutiny have been estimated using data from recent IARs. The average External Expert input for the 110 projects was 19 days. Particular reviews of high risk projects have required significantly more effort, with over 100 days spent on the review of the Sub Surface Upgrade Programme (excluding the proposed ATC signalling contract). The revised approach will enable similarly in-depth reviews of all high risk projects.

- 4.14 A retrospective analysis of the 110 projects indicated that 44 could have benefitted from a targeted review to assess particular risks identified by the continuous assurance. The new approach allows for up to 40 Targeted Assurance Reviews (TARs) out of the total of 157 reviews. By extension, the proportional approach means that some lower risk projects will not be reviewed. Of the 110 base population, the 19 lowest-risk projects would not be reviewed unless specific issues were identified through the continuous assurance.
- 4.15 The continuous assurance to be conducted by the Project Assurance team has been designed in outline with estimates of the time required to scrutinise the reporting outputs from the delivery directorates and to attend programme boards.
- 4.16 The **Third Line of Assurance** is provided by the IIPAG, which takes part in approximately 40 of the reviews carried out by Project Assurance each year. Under the new approach, the IIPAG will continue to take part in IARs and TARs.
- 4.17 The Three Lines of Defence construct requires that the Third Line of Defence is independent of both the organisation and the Second Line of Defence. The IIPAG will therefore continue to produce standalone reports alongside the Project Assurance IAR report. The IIPAG and Project Assurance will discuss further how duplication can be minimised.
- 4.18 The IIPAG has produced its Work Plan and Budget for 2015/16, which is considered elsewhere on the agenda. In parallel with the changes to the Second Line of Defence described above, the IIPAG Work Plan makes allowances for extended reviews of complex projects and for increased levels of continuous assurance. The IIPAG will also monitor the effectiveness of the First and Second Lines of Assurance, with an annual assessment included as part of the Group's Annual Report.

## **Culture**

- 4.19 The Three Lines of Defence model has now been defined and will be incorporated into Pathway. A refresh project has been initiated to ensure that the improvements to the Gates and assurance, maturity assessment findings and benchmarking from other organisations are also incorporated. A six-month programme of change is expected, beginning in the summer.
- 4.20 The Pathway documentation and training modules will be revised to ensure that project managers and sponsors understand the role and continuity of assurance.
- 4.21 The Pathway Integrated Assurance And Approvals Plan (IAAP) sets out the agreed assurance regime and review points throughout the project lifecycle. As part of the Pathway refresh, the IAAP will be enhanced to cover continuous assurance, IARs and TARS. Each IAAP will be formally approved by the Head of Project Assurance.
- 4.22 The IIPAG recommended transferring the remainder of the current TfL PMO into the delivery organisation. Since January 2015, the Delivery Programme Management Office has been jointly reporting to the directors of the LU Capital Programme Directorate (CPD) and the Surface Projects and Programmes Directorate (PPD). The principles of how the PMO will operate are:
- (a) PMO capability should be recognised as a functional capability (similarly to Finance) in support of resource deployment and development;

- (b) the people should be deployed as close to the point delivery as possible, enabling their performance to be measured in improved project outcomes; and
- (c) a Rail and Underground Portfolio Office will be established to complement the Surface Portfolio Office already in place.

4.23 The Project Management Centre of Excellence will be replaced by a new Functions and Capability team focused on delivering capability improvement as identified by industry standard maturity assessments. The core activities will include:

- (a) project management skills recording, development and training;
- (b) project management resource forecasting, planning and rotation;
- (c) knowledge management capture and facilitated sharing;
- (d) graduate and apprentice scheme management;
- (e) Pathway ownership and development; and
- (f) benchmarking.

4.24 There will be a small number of organisational adjustments associated with the above that will be implemented by the end of June 2015.

## **5 Schedule and Cost**

5.1 The original plan envisaged that the new assurance posts would be ready for recruitment by the end of February 2015, which was too optimistic. Under the guidance of the Head of Assurance, the new structure has been designed by the existing team. A detailed functional analysis is now being used to generate individual job descriptions that are expected to be evaluated and approved by the end of July. By involving the current team in the design from the outset, it is envisaged that the formal consultation on the new structure and roles will be more transparent and simpler. The recruitment is planned to begin in August, with the new team largely in place by December 2015.

5.2 The total cost of the Project Assurance function is estimated to increase from £2.1m to £3.3m per year. A further update will be provided to the Committee in December, once the new team is in place.

### **List of appendices to this paper**

Appendix 1: New Project Assurance Team Structure

## List of Background papers

Finance and Policy Committee paper on Sub-Surface Upgrade Programme Automatic Train Control Contract – Lessons Learnt 17 July 2014

Finance and Policy Special Purpose Sub-Committee papers 20 August and 16 December 2014

Finance and Policy Committee paper on Review of the Assurance and Approval Processes applicable to Investment Projects 22 January 2015

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Appendix 1: New Project Assurance team structure

