

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: REVIEW OF GOVERNANCE AND THE ANNUAL
GOVERNANCE STATEMENT FOR YEAR ENDED 31 MARCH
2009**

DATE: 10 JUNE 2009

1 PURPOSE AND DECISION REQUIRED

1.1 This paper provides a review of compliance with the TfL Code of Governance in 2008/09 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 2008/09 accounts.

2 BACKGROUND

2.1 The Accounts and Audit Regulations 2003 require that TfL's Statement of Annual Accounts include a Statement on Internal Control, prepared in accordance with proper practices. The guidance issued by Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) includes a template for an Annual Governance Statement which incorporates the elements of a Statement of Internal Control and fulfils the statutory requirements.

2.2 The annual review of Governance is an internal exercise which is complemented by part of the Audit Commission's review of TfL's Use of Resources. This provides a useful supplement to the Annual Governance Review.

2.3 The Audit Committee has the delegated responsibility to monitor TfL's on-going compliance with the Code of Governance. Following a recommendation from this Committee, the Board approved a revised Code of Governance, based on the updated CIPFA/SOLACE Governance Framework, at its March 2008 meeting and this review is based on the updated Code of Governance.

3 2008/09 REVIEW AND THE ANNUAL GOVERNANCE STATEMENT

3.1 The Annual Governance Statement follows a template provided in the CIPFA/SOLACE guidance note on the subject.

3.2 The 2007/2008 Annual Governance Statement 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 e.g. the integration of the activities formerly undertaken by Metronet and the transfer of Crossrail to the TfL Group. The overall conclusion was that TfL's governance arrangements were adequate and were operating effectively.

- 3.3 The annual review considers the degree of compliance with each undertaking in TfL's Code of Governance.
- 3.4 The process involved in compiling the Annual Governance Statement has been revised this year to ensure that there is greater corporate involvement in the production process and a significantly increased level of background information to inform the decisions with regard to individual assessments of the degree of compliance with each undertaking.

The Annual Governance Statement

- 3.5 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 at Appendix 1.
- 3.6 The assessments for the degree of compliance with the Code of Governance's undertakings are consistently high. There is corroboration for this conclusion in the Audit Commission's Use of Resources Assessment that considered TfL to be "performing strongly".
- 3.7 There were no significant governance issues that needed to be highlighted in the Annual Governance Statement arising from the 2008/09 review. However there are areas identified in the Annual Governance Statement relating to matters that need to be kept under review in 2009/10.

Governance Issues in 2008/09

- 3.8 The review undertaken to determine TfL's position in relation to governance confirms that TfL continues to achieve a steady improvement as TfL's structure and procedures have developed and matured. The assessments of compliance with each individual undertaking have not changed between 2007/08 and 2008/09.
- 3.9 There were a number of significant developments in relation to TfL's governance during 2008/09. These included:
- A change of Mayor following the Mayoral election;
 - Significant changes to the composition of the TfL Board following the Mayoral election;
 - A review of working arrangements for Committees and Panels;
 - Managing the commencement of the process to revise Mayoral strategies, in particular the Mayor's Transport Strategy;
 - The integration of the activities formerly undertaken by Metronet into the TfL governance framework;
 - Crossrail Limited becoming a wholly owned subsidiary company;
 - The transfer of the Croydon Tramlink companies to TfL;
 - Establishing Transport for London Finance Limited to manage the derivatives policies agreed by the Board;

- The first year of operation as a charity of London Transport Museum Limited and its trading arm, London Transport Museum (Trading) Limited; and
- Contributing to, and beginning to implement, the GLA Governance Review with regard to:
 - a) Declarations of interest of Board members and senior staff;
 - b) A protocol for the appointment of Mayoral advisers;
 - c) A protocol for dealing with complaints against Mayoral advisers; and
 - d) A protocol for dealing with the correspondence of GLA Assembly Members.

Improvement Plan 2009/10

- 3.12 It is important that TfL puts in place processes to ensure the steady improvement of its governance and an Improvement Plan has been prepared which sets out areas where work will be undertaken in 2009/10 and the responsible Chief Officer. These areas are derived not only from the internal review but taking into account Mayoral priorities and issues highlighted by the Audit Commission. This will include being more pro-active in promoting TfL's ethical policies, introducing a process for the TfL Board to assess its own effectiveness and implementing the recent Review of the Operations of TfL's Committees and Panels.
- 3.13 Those responsible for each improvement area will be required to produce an action plan and a timetable. The 2009/10 review of governance will include a commentary on progress in delivering each action identified.

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 2008/09 accounts.

5 CONTACT

- 5.1 Contact: Howard Carter, General Counsel.
 Phone 020 712

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 revised Code of Governance, which is consistent with the principles of the revised 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 or can be obtained from the Corporate Governance Adviser, 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 regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 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 remained in place up to the date of approval of the 2008/09 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;
- Audit;
- Remuneration; and
- Safety, Health and Environment.

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
- Planning and Corporate.

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 Statement of Assurance 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.

In particular 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.

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 which encourages constructive challenge and enhances TfL's performance overall.

TfL defines and documents the roles and responsibilities of the Board, Committees 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 in dealing with different stakeholders;
- 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 monitors 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 procedure notes/manuals, which 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 Audit Committee which is independent;
- 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. Any 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 and putting in place appropriate processes to ensure that they continue to operate in practice;
- 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 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 statutory 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 possible 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.

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 its means and deliver the Mayor’s priorities will undoubtedly give rise to challenges in the management of TfL. There will be continuous governance and senior officer oversight to ensure that the response to such issues is appropriate.

The issues to be addressed during the year include the further integration of the activities formerly undertaken by Metronet and Crossrail being delivered by Crossrail Limited (‘CRL’) on behalf of the Crossrail project sponsors TfL and the Department for Transport. CRL became a wholly-owned subsidiary of TfL in December 2008 and TfL will be responsible for managing the operation of the new railway. This presents new governance challenges and appropriate resources will be devoted to ensuring that the project has adequate oversight.

TfL will also implement the outcomes of the GLA Governance Review including the development of protocols for dealing with Assembly correspondence and certain appointments.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Chair of TfL Board

Signed:

Commissioner