

Date: 13 July 2017

Item: **Review of Governance and the Annual Governance Statement for Year Ended 31 March 2017**

This paper will be considered in public

1 Summary

- 1.1 This paper provides a review of compliance with the TfL Code of Governance in 2016/17 and asks the 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 2016/17 Annual Report and Accounts.

2 Recommendation

- 2.1 **That the Committee 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 2016/17 Annual Report and Accounts.**

3 Background

- 3.1 The Accounts and Audit Regulations 2015 require that TfL's Statement of Annual Accounts be accompanied by 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.
- 3.2 The Audit and Assurance 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.

4 The 2016/17 Review and the Annual Governance Statement

The 2016/17 Review

- 4.1 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.
- 4.2 The 2016/17 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 external review of Board

performance and governance and the implementation of an Integrated Assurance Framework.

The Annual Governance Statement

- 4.3 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 describes the monitoring process to ensure the effectiveness of the Code of Governance. The draft Annual Governance Statement is included as Appendix 1.
- 4.4 There were no significant governance issues that needed to be highlighted in the Annual Governance Statement arising from the 2016/17 review. However, there are areas identified in the Annual Governance Statement relating to matters that need to be kept under review in 2017/18.

Governance Issues in 2016/17

- 4.5 The 2016/17 review confirms that TfL continues to achieve a high standard of corporate governance and has continued to make improvements as TfL's structure and procedures have developed and matured. The assessments of compliance with each individual undertaking have not changed between 2015/16 and 2016/17.
- 4.6 There were a number of significant developments in relation to TfL's governance during 2016/17. These included:
- (a) the establishment and embedding of a new decision making structure at Board level to provide a greater focus on strategic and pan-TfL issues. A new slimmed down Board with a wider skill set and greater diversity was appointed and inducted. Both the new decision making structure and composition of the new Board addressed the recommendations from an external review of Board effectiveness;
 - (b) TfL further improved the quality, consistency and transparency of the finance and reporting information provided to Members and the public and continued the programme of publishing more information in line with the Transparency Strategy published in 2015;
 - (c) TfL's overall Risk Management process was reviewed. This has delivered key improvements, including internal workshops and training sessions on Risk Management across the Business Areas, as well as a Strategic Risk Management Workshop with Audit and Assurance Committee Members; and
 - (d) the continuing development of a TfL wide integrated management system;

Improvement Plan

- 4.7 An Improvement Plan to ensure the continued improvement of TfL's governance was prepared for 2016/17. Appendix 2 provides a commentary on

progress in delivering each action identified. Appendix 3 includes an Improvement Plan for 2017/18

List of appendices to this report:

Appendix 1: Annual Governance Statement
Appendix 2: Progress Against Improvement Plan 2016/17
Appendix 3: Improvement Plan 2017/18

List of Background Papers:

TfL Annual Governance Statement 2016
TfL Integrated Assurance Framework – Audit and Assurance Committee paper March 2017
Review of TfL’s Independent Reporting lines for Year Ended 31 December 2016 - Audit and Assurance Committee paper March 2017

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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.

Under section 127 of the Greater London Authority Act 1999, an individual must be given personal responsibility by appointment of TfL to 'make arrangements for the proper administration of financial affairs'. This role is performed by TfL's Chief Finance Officer (CFO). TfL's financial management arrangements conform with the governance requirements of the Chartered Institute of Public Finance and Accountancy *Statement on the Role of the Chief Financial Officer in Local Government* (2010).

The CFO is appointed and removed by the Board, reviews all papers relating to financial management for the Managing Directors, Committees or Board in advance, attends all Board meetings and has unrestricted access to the Commissioner.

As a functional body of the Greater London Authority (GLA), TfL is a signatory to a GLA Group Framework Agreement, which was updated in 2016. The Agreement is an overarching commitment in relation to the culture and individual behaviours of the GLA Group and contains specific corporate governance commitments. The Agreement is a commitment by all parties to be open, transparent and accountable for their actions and behaviour. It is a high level document that sets common principles that apply across the Group, with the methods of implementation left to each Functional Body to determine. TfL has in place protocols and processes that address all of the requirements of the Agreement.

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

A copy of the TfL Code of Governance is available online at tfl.gov.uk or can be obtained from the Secretariat, 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 Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, 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 2016/17 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:

- Audit and Assurance;
- Finance;
- Programmes and Investment; and
- Remuneration.

The Board has two panels, made up of Board members, which provide strategic advice to the Board on the development and execution of policy:

- Customer Service and Operational Performance; and
- Safety, Sustainability and Human Resources.

The Audit and Assurance 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 Code"), 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 and the Executive Committee are 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. He also carries out an annual benchmarking exercise comparing TfL's governance arrangements with the UK Corporate Governance Code.

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;
- developing and maintaining an effective scrutiny function for its Investment Programme that encourages constructive challenge and enhances TfL's performance overall; and
- publishing operational and financial performance data each quarter.

TfL defines and documents the roles and responsibilities of the Board, Committees, Panels and employees with clear delegation arrangements and protocols by:

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

TfL has developed and communicates the requirements of the Code of Conduct, defining the standards of behaviour for Board members and employees 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 Board members and employees, between Board members and employees 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 Board members and employees 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 senior employees;
- developing and maintaining shared values including leadership values for both the organisation and employees reflecting public expectations and communicating these to Board members, employees, 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 Board members and employees at all levels recognising that risk management is part of their jobs.

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

- having an effective, independent Audit and Assurance Committee;
- having the Audit and Assurance Committee develop and maintain an effective oversight;
- having an internal audit department that complies with relevant professional standards and is regularly evaluated by external auditors;
- having an Integrated Assurance Plan that is driven by an annual evidenced assessment of the key business risks facing TfL; and
- maintaining an Integrated Assurance Framework.

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 member of employees, currently the Chief Finance 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 member of employees, currently General Counsel, 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 employees and all those contracting with TfL have access including external independent reporting lines.

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

- ensuring that its Board members and employees are provided with the necessary training to perform their roles;
- ensuring that its employees 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 Board members and employees and committing to develop those skills to enable roles to be carried out effectively;
- commissioning regular external reviews of Board effectiveness; 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 employees 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;
- cooperating 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 employees within TfL who have responsibility for the development and maintenance of the governance framework, 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 and Assurance 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.

TfL's Audit and Assurance Committee has considered the review of the effectiveness of the governance framework and a plan to ensure continuous improvement is in place.

Significant Governance Issues

During the year 2016/17, TfL has established and embedded a new decision making structure at Board level to provide a greater focus on strategic and pan-TfL issues. A new slimmed down Board with a wider skill set and greater diversity was appointed and inducted. Both the new decision making structure and composition of the new Board addressed the recommendations from an external review of Board effectiveness.

TfL further improved the quality, consistency and transparency of the finance and reporting information provided to Members and the public and continued the programme of publishing more information in line with the Transparency Strategy published in 2015.

TfL's overall Risk Management process was reviewed. It has delivered key improvements, including internal workshops and training sessions on Risk Management across the Business Areas, as well as a Strategic Risk Management Workshop with Audit and Assurance Committee Members.

TfL proposes to continue to improve and develop its governance arrangements over the coming year.

Issues to be addressed in the coming year include reviewing the new decision making structure, introduced in September 2016, after its first year of operation. TfL's governance arrangements will also be reviewed in light of the new Mayor's Transport Strategy, which is due to be agreed later in 2017. TfL will continue to improve the quality, consistency and transparency of the information provided to members and the public

TfL is confident that the current governance processes and planned developments will enable it to meet the challenges identified.

Signed:

Chair of TfL Board

Signed:

Commissioner

Improvement Plan 2016/17

Proposed Activity	Responsible Managing Director	Commentary
Conduct an induction programme for new Members of the Board following their appointment by the new Mayor.	General Counsel	Completed. An induction programme for all Members and programmes for Committees and Panels (but open to all Members) were implemented. There have also been a number of site visits and wider briefings.
Propose and implement a revised decision making structure (in light of the 2015 review of Board effectiveness), which enables Members to focus on strategic issues.	General Counsel	Completed. A proposed revised decision making structure was agreed by the Board on 19 July 2016. Revised Standing Orders were agreed at the following meeting on 22 September to implement the changes, which included the creation of the Programmes and Investment Committee (PIC) and Finance Committee (from the former Finance and Policy Committee) to enable the new Committees to focus on strategic issues.
Further improve the quality, consistency and transparency of the finance and reporting information provided to Members and the public.	Chief Finance Officer	<p>Completed. TfL amended its reporting arrangements following the appointment of the new Board and the changes to its decision making structure in September 2016.</p> <p>The new reporting arrangements provide further clarity to TfL's reporting, including a new and regular Finance Report, in addition to a substantially revised Quarterly Performance Report. The format and content of these reports were extensively tested with key stakeholders and will be refined further. Going forward, each meeting of the Board will receive a Finance Report providing the latest possible detail.</p>

Proposed Activity	Responsible Managing Director	Commentary
		<p>The Quarterly Performance Reports are also published on the website: https://tfl.gov.uk/corporate/publications-and-reports/quarterly-progress-reports.</p> <p>Reporting on the Investment Programme has been reviewed to reflect the changes in Standing Orders.</p>
<p>Conduct and implement any recommendations from an annual review of Board effectiveness in early 2017 in light of the revised decision making structure and presentation of information.</p>	<p>General Counsel</p>	<p>Ongoing. The new Board was largely appointed in September 2016, at the same time as the changes to Standing Orders were agreed to implement the new Member-level decision making structure. It was agreed that the annual review of effectiveness should be timed for Summer/Autumn 2017 to allow sufficient bedding-in time to judge the effectiveness of the new Board and decision making structures.</p>
<p>Continue the annual exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.</p>	<p>General Counsel and Director of Internal Audit</p>	<p>Completed. An update will be reported to the Customer Service and Operational Performance Panel of Committee of 13 July 2017.</p>
<p>Undertake a “Health Check” of the statutory books of TfL’s subsidiary companies.</p>	<p>General Counsel</p>	<p>Completed. A health check was carried out in November 2016 and no significant issues were identified.</p>
<p>Prepare and disseminate advice to new and existing statutory directors of subsidiary companies explaining</p>	<p>General Counsel</p>	<p>Completed. The revised statutory directors’ guide now reflects the change to the subsidiary company structure resulting from the reorganisation of the top</p>

Proposed Activity	Responsible Managing Director	Commentary
their duties and responsibilities under the Companies Act 2006, particularly in light of the expected increase in the number of companies to support commercial development activity.		structure.
Continue with the development of a TfL wide integrated Management System.	General Counsel and Director of Health, Safety and Environment	In progress. Significant development of the management system coverage and accessibility has taken place and a programme of continuing review is in place.
Deliver TfL's commitments to increased transparency following the Transparency Strategy, published in October 2015, which incorporates commitments on additional information which TfL should proactively publish.	MD, Customers, Communication and Technology and General Counsel	Completed. An update report was submitted to the Board in September 2016. To reflect the revised GLA Group Framework Agreement, the Gifts and Hospitality Registers of all staff on the top organisation chart have been published since March 2017. There continues to be a reduction in the number of papers submitted to Board and related meetings that are exempt from publication.
Review TfL's overall Risk Management process and deliver key improvements, including internal workshops and training sessions on Risk Management across the Business Areas, as well as a Strategic Risk Management Workshop with Audit and Assurance Committee Members, facilitated by Ernst & Young.	Chief Finance Officer	Completed. Review agreed at 8 March 2016 meeting of the Audit and Assurance Committee. Workshops and briefings held on 11 October 2016, 14 February 2017 and 4 April 2017. The presentation of strategic risk information to the Audit and Assurance Committee is continually amended and reviewed by the Members each quarter.

Improvement Plan 2017/18

Proposed Activity	Responsible Managing Director
Continue to develop and implement a programme of briefings and site visits for Members of the Board.	General Counsel
Conduct and implement any recommendations from an annual review of Board effectiveness in summer/autumn 2017 in light of the first year of operation of the revised decision making structure and presentation of information.	General Counsel
Devise and implement a programme to improve TfL's safety management maturity and capability.	Mark Wild/ Executive Committee
Continue the annual exercise benchmarking TfL governance against the UK Corporate Governance Code 2010 and implement relevant recommendations.	General Counsel and Director of Internal Audit
Review TfL's governance arrangements once the new Mayor's Transport Strategy has been agreed.	General Counsel
Continue to disseminate advice to new and existing statutory directors of subsidiary companies explaining their duties and responsibilities under the Companies Act 2006, particularly in light of the expected increase in the number of companies to support commercial development activity.	General Counsel
Continue with the development of a TfL wide integrated Management System.	General Counsel
Develop TfL's operating model and processes in accordance with agreed organisational change programmes.	Executive Committee
Implement TfL's new scorecard arrangements and continue to develop effective operational and performance measurement processes.	Gareth Powell/ Executive Committee
Continue to develop TfL's proactive approach to transparency, consult on a revision to the 2015 strategy and publish a revised strategy.	MD Customers, Communication and Technology/ General Counsel
Devise and implement a compliance programme for the publication of personal data in accordance with GDPR.	General Counsel/ Executive Committee
Implement agreed changes to the IIPAG assurance arrangements following an independent review.	Chief Finance Officer/ General Counsel
Implement agreed governance changes in response to the recommendations made in the Hodge Review of the Garden Bridge.	Chief Finance Officer/ General Counsel

Proposed Activity	Responsible Managing Director
Continue to develop TfL's Strategic Risk processes and deliver key improvements including clarification of risk responsibilities, consistent risk processes and clearer Committee/Panel oversight of key risk topics.	Chief Finance Officer/ General Counsel/ Executive Committee
Review and agree governance arrangements for Crossrail 2.	General Counsel/Managing Director of Crossrail 2