

TRANSPORT FOR LONDON

AUDIT COMMITTEE

SUBJECT: STRATEGIC RISK MANAGEMENT ANNUAL REPORT 2008/09

DATE: 10 JUNE 2009

1 PURPOSE AND DECISION REQUIRED

- 1.1 The purpose of this paper is to summarise Risk Management activity for the year ended 31 March 2009. The Committee is asked to note this report.

2 BACKGROUND

- 2.1 There has been in place now for over two years a full process for the management of strategic and significant risks. This is a “top-down” / “bottom-up” model. All strategic risks are owned by the TfL Commissioner and are identified and reviewed by the Chief Officers through an annual workshop. At modal level, the identification and management of significant business risks is the responsibility of Managing Directors and their management teams. To co-ordinate these risks, and escalate them as necessary, TfL has in place a network of risk champions, or “Key Risk Representatives”, across the various modes and directorates. Bridging the gap between the strategic and modal levels is a body called the Risk Management Group. This group meets quarterly to review the status of the strategic risks, discuss emerging risks and arbitrate on any risks that cut across one or more directorates. This process is now integrated with the quarterly performance reporting timetable.
- 2.2 Risks are assessed and reported at a residual level – that is, taking into account controls and mitigations that are already in place. Risks are reported consistently on 5X5 heat maps, with arrows indicating movement of risks from period to period. A strategic risk appetite model has now been agreed at a corporate level. This is the first step in promulgating the use of risk appetite across the organisation. With a risk appetite in place, indicating the level of risk that is acceptable, a “target risk level” can be set for all risks. Actions can then be identified to manage the risk down to the acceptable target level.

3 ACHIEVEMENTS THIS YEAR

Training

- 3.1 Following three years of process development and implementation, we are now into a second year of improving the general level of understanding of risk

management across the organisation. This year has seen continued development of the risk training and awareness programme that encompasses all levels of expertise.

- 3.2 The risk management training approach so far adopted has been a “top-down” model. The emphasis has been on identifying a core group of around two hundred managers across the organisation that should be actively managing their own risks. Selection for the course has been based upon nominations by Managing Directors, their direct reports and the various modal Key Risk Representatives.
- 3.3 TfL’s class-based training is provided through the Business Manager Risk Training course. This is a one-day course that introduces risk management concepts and explains TfL’s approach by means of a relevant case study and worked examples. This course has been co-developed with TfL’s professional training provider partners, PM Professional Learning. During 2008/09, TfL delivered twelve courses, with 104 attendees. Over the two years of its delivery, TfL has therefore provided a total of 21 courses for 175 attendees.
- 3.4 Another major element of the training and awareness programme is our E-Learning module covering risk identification. The module is a general risk awareness course aimed at the introductory level. To date 216 members of staff have completed the module, with at least a further 75 accessing the module but not completing it before year-end.
- 3.5 One of the objectives of the risk training strategy is to ensure that it is appropriately integrated with other training initiatives. To this end, a joint approach has now been agreed with the managers of the Pyramid programme that provide training for the project management community. Previously, the risk element of this programme involved a two-day course that was based upon generic risk principles rather than featuring the TfL risk management process. In future, all project management staff will attend the Business Manager Risk course and will then attend a further day’s training covering project risk techniques. This will help to ensure consistency of language, understanding of process and application of common principles across the Group. In a similar vein, work is underway to ensure that risk training forms a coherent element of the overall General Counsel training and awareness programme. In particular, this will ensure that risk will be a focused part of future targeted compliance and assurance training projects.
- 3.6 The content of both the Business Manager Risk course and the E-Learning module have been reviewed and refreshed during the year based upon feedback received. A second publicity campaign was begun in May 2009 to re-launch the updated E-Learning module and also to introduce the Business Manager Risk course to a wider audience.

- 3.7 Other risk training initiatives during the year have included TfL Board Member training and an update and refresher course for the Key Risk Representative Group.

Risk Appetite

- 3.8 A TfL strategic risk appetite is now in place. This was agreed at the Chief Officers' Risk Workshop in September 2008. The model adopted is based upon the 5X5 heat map grid. Ranges of boxes within the grid are indicated as areas where risks are either totally unacceptable to the business, or where they may be tolerated only in the short term. In these areas, which are beyond the risk appetite of the Group, high priority action plans are required to be put into place to mitigate risks down to an acceptable level.
- 3.9 Having agreed the appetite at the strategic level, the challenge for the coming year will be to roll the concept out across the Group at directorate level and below.

4 ACTIVE RISK MANAGER SOFTWARE

- 4.1 Significant progress has been made in broadening the user base across the Group of the preferred risk management software – Active Risk Manager (ARM). In simple terms, the more users inputting risks to a common system and database, then the greater the visibility of those risks to central co-ordinators. Thus, significant risks may be more easily escalated and systemic risk issues are more likely to be picked up. Another significant benefit arising from use of a common system is the improved consistency and comparability of data across business units, modes and directorates.
- 4.2 London Underground has had a significant ARM user base for some time and therefore the focus has been to increase user numbers in other areas of the business. This promotion campaign has been conducted by both the Strategic Risk Management Team and also by the modal Key Risk Representatives, with particular success in Surface Transport and London Rail. We have also included an introduction to ARM as part of our Business Manager Risk Training module – with attendees being set up as users of the system in time for their return to the office. This approach has achieved good results to date. There are now 685 staff across the business with ARM access, 400 of which are active and regular users.

5 CONTROL RISK SELF-ASSURANCE (CRSA) 2008/09

- 5.1 Control Risk Self Assurance is a process that enables management to assure themselves that key controls are operating across a whole process. It can reduce, but not eliminate, the need for internal audit. The CRSA returns are open to review by internal and external auditors to ensure they are in line with audit findings during the year. Any differences are discussed and resolved. The results of the CRSA process are used to focus audit efforts during the year on those areas where control improvements are identified as being needed. London

Underground also have a 'statements of internal control' process which complements CRSA and is similarly subject to Internal Audit review.

- 5.2 The key processes developed in previous years for Financial Accounting, Payroll, Procurement, HR Services and Station Security were each reviewed and completed by the relevant Finance Director, or process owner, in each mode. No significant control weaknesses or omissions were reported.
- 5.3 CRSA is to be advanced further during 2009/10 within the areas of IM, Pensions and revenue collection. The methodology will follow that already adopted using interviews and workshops to ascertain the key controls and the ownership of those controls. The target date for process owner sign-off for these areas is 31 March 2010.

6 BENCHMARKING AND NETWORKING

- 6.1 To ensure that Risk Management remains aware of developing tools and techniques that contribute to best practice in the field, TfL actively engages with a range of other organisations in relation to risk management. TfL has corporate membership of the Association of Local Authority Risk Managers, from whom we receive copies of publications, newsletters and updates.
- 6.2 We actively contribute to the London Risk Management Group, which consists of representatives from a number of public sector bodies in and around London. The aim of the group is to promote risk management across London public sector organisations and to develop tools and techniques that members can use to improve their own risk management arrangements. Recent work undertaken by this group includes a review and challenge of the risks included on the Government's National Risk Register and an assessment of the implications of changes to the Audit Commission's Comprehensive Area Assessment regime.
- 6.3 The Head of Risk Management is also a member of the Institute of Risk Management and of the Chartered Institute of Public Finance and Accountancy – and frequently attends networking and update events organised by them.
- 6.4 During the year we have been contacted by a number of organisations wishing to talk to us about benchmarking their Risk Management processes against our approach.
- 6.5 Our work continues to be recognized by the media and conference organisers. For example, presentations have been given this year to the Institute for International Research Risk Congress and to the National School of Government.

7 FEEDBACK

- 7.1 We obtain detailed feedback on our Business Manager Risk Training course and the average score to given by participants upon completion of the course during the year was 91 per cent.
- 7.2 Our relationship with Internal Audit has two distinct facets. Because they have a risk-based approach to their planning we are able to help them draft their initial annual plan by facilitating a series of workshops on the strategic risks. These workshops help to identify potential audit work on the strategic risk controls and mitigation strategies. Internal Audit also provide assurance and feedback information on the effectiveness of the risk management arrangements in place both corporately and in the modes.

8 STRATEGY

- 8.1 In line with good practice, the overall strategy for risk management will be reviewed and revised during 2009/10. Particular focus will be given to risk review arrangements and the role played by the strategic risks in business planning and decision-making.

9 EQUALITIES AND INCLUSION AND CRIME AND DISORDER

- 9.1 Risks to the organisation's equality and inclusion objectives and the Crime and Disorder agenda have been, and continue to be, assessed as part of the overall strategic risk management process. The risk and mitigation elements for equality and inclusion for example are captured in detail as part of the strategic risk covering "Quality and quantity of people". However, we do continually review risk identification arrangements and provide challenge to ensure that all risk areas, including Crime and Disorder risks, are properly captured across the business.

10 RECOMMENDATION

- 10.1 The Audit Committee is recommended to NOTE this report.

11 CONTACT

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