

Independent Investment Programme Advisory Group

**Review of the Effectiveness of
First and Second lines of Defence – 2020/21**

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1. EXECUTIVE SUMMARY

This short report assesses the progress made against the recommendations that we made last year. It is not easy, in such an unusual year, to draw firm conclusions, but we do think we can detect progress in the impact of first and second lines of assurance. The tighter financial situation, in itself, inevitably increases the attention paid to project scrutiny.

We are, however, sure that there is more to do to strengthen the first line of defence. This is not a reflection on the quality of people involved, but is a result of the weaknesses in definition and deployment of project processes that we have reported on in other cross-cutting reviews. The various cross-TfL improvement initiatives provide the opportunity to address some of these process and system weaknesses.

The Project Assurance (second line of defence) team is stronger than it was, although it is losing key individuals, the replacement of whom will determine whether this improvement is sustained.

2. INTRODUCTION

As in many large organisations, Transport for London deploys a 'Three Lines of Defence' Assurance Model on its Investment Programme. The **first line of defence** is undertaken by those who own and manage the risk. For investment projects this means the sponsors, project managers and functional specialists who run the projects, supported by the Programme Management Office (PMO), and the senior managers to whom they report. The purpose of the **second line of defence** is to provide objective assurance from outside of the line. For investment projects the main provider of the second line is the Project Assurance team. The **third line of defence** for investment projects is mainly provided by the Independent Investment Programme Advisory Group (IIPAG).

IIPAG is required to provide regular advice on the performance of the first and second lines of defence. This year we undertook a deep review into the adequacy of the first and second lines of defence in the Crossrail Programme.¹ For the rest of TfL we have decided to provide a lighter touch assessment by revisiting progress made on the findings and recommendations we made last year.

¹ The IIPAG review of Crossrail Assurance was considered at the March 2021 Elizabeth Line Committee.

3. OUR FINDINGS

The ultimate aim of Project Assurance is better founded and more successful projects. 2020/21 was such an unusual year that it is hard to draw firm conclusions. But our sense is that although we still see projects which exceed their original costs and schedules, fewer unsound projects have been initiated and some troubled projects have been abandoned or paused for reconsideration. We also think that *value for money* is receiving more structured attention than it did. That said, we still see projects which have progressed without sufficient strategic consideration, and others with inadequate provision for risk. Instances of legal challenge to procurement decisions also raise assurance questions. A business case, and the first line assurance surrounding it, sometimes seems to us to be a vehicle for approving a predetermined decision, rather than presenting decision makers with informed optionality.

First Line of Defence

We have again reflected that we regularly encounter excellent staff in the first line of defence. The need to address stretched resources in some skill areas regularly appears in our assurance reports but, when adequate resource is applied, we believe that the sponsors, project managers and functional specialists running TfL's projects are, by and large, up to the task.

In any organisation, first line assurance works best when it works through clear, well-established and well-understood project initiation and delivery processes. Last year we were critical about the lack of consistency in areas such as cost estimating, and risk and contingency provision. We encouraged the organisation to drive towards common, high-quality processes, methodologies and tools that can become simply 'the TfL way'. Since then, we have gained a fuller understanding of the blockers to applying common process through our review of the PMO.²

An important conclusion of that review was that some of the underpinning fundamentals for good project control and assurance are weak or inconsistent. These include clarity on the project, programme and portfolio hierarchy, and the definition and tracking of approvals and baselines. This impacts the control and reporting of projects and inevitably weakens assurance. A related challenge is that some project processes were designed for large projects and are over-burdensome for the rest. We do not think that

² The IIPAG review of the PMO was considered at the May 2021 Programmes and Investment Committee.

first line assurance will be as effective as it could be until these underlying issues are addressed.

Last year we also highlighted the importance of assurance planning. We were keen to see some simplification of the rather complicated financial, commercial and project approval processes, since each of these requires its own assurance and the overall picture becomes very complex. We advocated that each project has an integrated assurance plan which includes commercial, financial and technical approvals as well as project gates. We do not believe that the organisation has turned the corner on this yet.

We do think that these challenges are recognised. Since our last report, two cross-business improvement groups, known as the Capital Delivery Improvement Group (CDIG) and the Capital Investment Improvement Group (CIIG) have begun to grip some of these issues. The Capital Efficiency initiative may help too. We are looking forward to seeing progress from each of these.

An indication that there is more to do in the first line of defence is that so much is still picked up in the second line.

Second line of Defence

In our review last year we were complimentary about the Project Assurance team's grip on the status of the investment portfolio, and thought that the (then relatively new) Head of Project Assurance brought sound judgement to which issues should be escalated and how. We encouraged her to continue to add more weight and credibility to her team, and to deploy external advisors more purposefully.

We are pleased with the progress that has been made to strengthen the team of Assurance Review Managers, including through some short-term broadening assignments from around the organisation. We detect the team being more challenging about deliverability and risk, which is the key to effective second line assurance. We have been particularly impressed with the new subject matter experts both of whom have brought a new level of constructive challenge. It is a shame that the commercial expert is shortly to leave the organisation. It is important the replacement is someone of equal strength.

So overall, we are pleased with the progress that has been made in the Project Assurance team, and we encourage more of the same. We still advocate, for example,

using project staff from elsewhere in the organisation on specific project assurance reviews, to the benefit of all.

We also note the progress in deploying External Experts more purposefully. Some deep expertise has been deployed (for example on the 4LM Programme) while many less technical assurance activities have been managed perfectly well without recourse to contractors.

Finally on resources, we think that the elevation of the Head of Project Assurance to the position of interim Director of Risk and Assurance, leaves large shoes to fill. We hope that her replacement will have her courage, and her ability to challenge hard without breaking the crockery.

There have been some experiments with new assurance processes, although the main tool remains Project Assurance Reviews, supported by Continuous Assurance. At their best these remain effective. Working with the PMO, the team has trialed more focussed engagements with the aim of judging a project's optimistic, most likely, and pessimistic cost and schedule forecasts. (IIPAG also attended as the third line of defence). These have been labelled 'deep-dives' although in reality they are not very deep. At their best the internal challenge has helped the first line of defence to be realistic about likely project outcomes, but these interventions are not a substitute for in-depth second line assurance.

4. RECOMMENDATIONS

Broadly speaking, our recommendations mirror those we made last year, updated to reflect the progress that has been made in the second line of defence, and our greater understanding of some of the structural impediments to effective first line assurance.

- Through its emerging improvement initiatives, the organisation should strengthen the foundations of control and assurance in the investment programme, aiming for common, simpler and more focussed processes. (This recommendation essentially encompasses our more granular recommendations from the review of the PMO.)
- The strengthening of the Project Assurance team should continue, and particular attention should be paid to replacing the Head of Project Assurance and the lead on commercial assurance.