

Transport for the North Board Meeting

- Subject:** Audit & Governance Committee Annual Report
- Author:** Chris Melling, Chair of the Audit & Governance Committee
- Sponsor:** Iain Craven, Finance Director
- Meeting Date:** Wednesday 18 November 2020

1. Purpose of the Report:

- 1.1 This report updates Transport for the North Board on the work undertaken by the Audit & Governance Committee during the 2020/21 financial year.
- 1.2 The report provides a summary on the Committee's activity against its terms of reference, and its findings against its areas of scrutiny.
- 1.3 The report concludes with a recommendation for the Board to approve the statutory Statement of Accounts as presented to Board at this meeting.

2. Executive Summary:

- 2.1 The TfN constitution prescribes the requirement for an Audit & Governance Committee.
- 2.2 This Committee is comprised of five members of the TfN Board, and three independent members recruited on the basis of relevant skills.
- 2.3 The Committee's terms of reference are appended to this report for reference (Appendix 1), but the Committee's principal purpose is to provide independent review and assurance to Members on governance, risk management and control frameworks.
- 2.4 During the 2019/20 financial year the Committee met five times, with a Chair appointed from its independent members. The committee has met twice in the current financial year and its operation has been largely unaffected by the Covid-19 pandemic, other than that it has been required to meet remotely.
- 2.5 Given that TfN was established relatively recently, the Committee has continued to focus on gaining assurance as to the existence and efficacy of underlying processes and controls. In addition, the Committee has focused on the risks faced by TfN and the processes in

place to assure that these are identified, reported, managed and mitigated.

- 2.6 This report notes the progress the Committee has made in discharging its functions and contains a recommendation with regards the approval of the statutory Statement of Accounts.

3. Audit & Governance Committee Progress Report

- 3.1 The TfN Constitution prescribes the requirement for an Audit & Governance Committee to support Members in their oversight of TfN's affairs.
- 3.2 The Audit & Governance Committee consists of five TfN Board members and three independent members (appointed by an open recruitment process). The Committee is chaired by an Independent member, with the TfN Board member for Cumbria as Vice Chair.
- 3.3 Over the year the Committee met five times. Meetings have been attended by Department for Transport representatives, along with TfN's internal and external audit providers (RSM and Mazars respectively).

Work Plan

- 3.4 Over the year the Committee has agreed a number of standing items that should be brought before the Committee by officers. These include:
- The Corporate Risk Registers;
 - Financial Reporting; and,
 - Constitution Reviews.
- 3.5 The Committee also requires that instances, or suspicion, of fraud and corruption are reported to the Committee directly.
- 3.6 In addition to this, the Committee also approved the internal audit programme of activity. This programme has been designed to provide the Committee with the assurance it requires that TfN has implemented a control framework that appropriately manages risk.
- 3.7 The Committee has received regular updates from internal audit against this plan, and also updates from external audit as they have progressed the statutory audit.
- 3.8 During the year the committee required a number of specific items of work to be undertaken. These included a review of the governance arrangements for the NPR programme, which resulted in the NPR MOU being presented to the January 2020 Board, and a presentation on management of the assets generated by the IST programme.

- 3.9 The Committee's activity vis-à-vis its terms of reference is presented in matrix form in Appendix 2.

Internal Audit Activity

- 3.10 RSM was appointed as TfN's internal audit provider in 2018 following a competitive procurement exercise.
- 3.11 The Committee agreed the audit programme for the year, concentrating on the implementation of core control frameworks.
- 3.12 RSM was able to provide the following level of assurance in these key areas:

Area	Assurance Level			
	Substantial	Reasonable	Partial	None
Treasury Management Framework	√			
Review of Sharepoint		√		
Absence Management & Wellbeing	√			
Risk Management: Risk Register Deep Dive	√			

The audit to follow up on the recommendations made by the internal auditor in previous audit reports identified "good progress" in relation to the follow up actions agreed with management.

- 3.13 In addition, an advisory review in relation to the governance arrangements for the Northern Powerhouse Rail programme was carried out at the request of the Committee. This resulted in the NPR MOU that was presented to the TfN Board for approval on 12th March 2020.
- 3.14 The Committee is able to provide TfN Board with assurance from these reports that the necessary core controls expected of a public body have been implemented in the areas reviewed.
- 3.15 The Committee has tracked progress against agreed management actions throughout the year.

External Audit Activity

- 3.16 Mazars were appointed as TfN's statutory auditor in 2018 via the Public Sector Audit Appointment process and continued in this role during the year.
- 3.17 Mazars conduct the external audit, as required by statute. This audit considers whether the Statement of Accounts presents a 'true and fair view' of TfN's affairs, and also gives a value-for-money opinion.

- 3.18 The Committee has received progress reports from officers and Mazars throughout the year regarding progress in the completion of the accounts and their subsequent audit and has twice formally reviewed the draft unaudited accounts.
- 3.19 The Committee was notified regarding the impact of issues arising in Phase 3 of the IST programme as part of the process to finalise the 2018/19 financial statements and, having discussed the matter with the Finance Director and Mazars, were content with the approach that was adopted within the financial statements. The subsequent decision of the TfN Board to first pause and then cancel Phase 3 has required consequential adjustments in the financial statements. Again, following discussion with officers and the external auditor the Committee is content that these adjustments have been properly recorded in the financial statements of TfN.
- 3.20 Recognising the specific circumstances generated by the Covid-19 outbreak, the Committee notes that the process of finalising the Transport for the North accounts was substantially completed by the end of July. However, the pandemic caused delays to the audit of the pension fund, with consequential impact on the ability of the auditors to provide an opinion on our financial statements. Transport for the North has therefore utilised the revised statutory deadlines for Local Authority reporting put in place by government earlier in the year and will use the November Board to approve the 2019/20 financial statements in advance of the 30 November deadline.
- 3.21 Whilst Mazars will not formally report their audit findings until release of the ISA 260 audit opinion to TfN Board, the Committee has sufficient comfort to recommend the accounts to Board for approval.

Risk

- 3.22 One of the first exercises that Committee undertook when it was first established was to review and approve Transport for the North's Risk Management Strategy. Subsequently, the Committee has a standing agenda item in relation to risk.
- 3.23 During the year the Committee has reviewed both corporate and programme risks and provided feedback with regard to the presentation of the information provided. This has included changes in the presentation of the corporate risk register to enhance the users understanding of the likely effectiveness of TfN's risk mitigation strategies.
- 3.24 In September 2019 the Committee approved a number of amendments to the TfN Risk Management Strategy. These changes were made in response to recommendations made by Internal Audit, and also to reflect the benefit of operational experience.

Next Steps

- 3.25 The work programme for 2020/21 is intended to include the following:
- Consider the outputs produced by the Internal Audit plan for 2020/21.
 - Consider the impacts of Covid-19 on TfN operations.
 - Monitor Transport for the North's risk management activity.
 - Review the Anti-Fraud and Corruption Policy.
 - Review corporate governance arrangements against the Code of Corporate Governance and the good governance framework
 - Consider the assurance framework that is being developed as part of the 2020/21 business plan.

4. Conclusion:

4.1 Having reviewed the findings of internal audit and the submissions of officers, the Committee can provide assurance to the Board that in the areas reviewed TfN has implemented a sound control framework that appropriately manages risk.

4.2 Having reviewed the Statement of Accounts and received representation from officers and external audit, the Committee commends to the Board the Statement of Accounts as contained in this pack.

5. Recommendation:

5.1 That the Board approve the Statement of Accounts for financial year 2019/20.

6. Appendices:

6.1 Appendix 4.2a - TfN Audit & Governance Committee terms of reference

6.2 Appendix 4.2b - Activity Matrix

List of Background Documents:

The following background papers were considered in preparation of this report –

Transport for the North Constitution:

<https://transportforthenorth.com/wp-content/uploads/Item-5.1-Appendix-1-Constitution.pdf>

Internal Audit Reports to the Audit & Governance Committee:

Payment Authorisation, Expense, Procurement Cards:-

<https://transportforthenorth.com/wp-content/uploads/Item-7.0-2-Payment-Authorisation-Processes-Expenses-and-use-of-Procurement-Cards.pdf>

Payroll:-

<https://transportforthenorth.com/wp-content/uploads/Item-8.4-Core-Financial-Controls-Payroll-5.18.19-FINAL-T4N.pdf>

Procurement Framework:-

<https://transportforthenorth.com/wp-content/uploads/Item-6.2-Procurement-Framework-3.18.19-FINAL-T4N.pdf>

Risk Management:-

<https://transportforthenorth.com/wp-content/uploads/Item-8.1-Risk-Management-Risk-Register-Deep-Dive-1.19.20-FINAL-T4N.pdf>

Framework for Corporate Governance:-

<https://transportforthenorth.com/wp-content/uploads/Item-8.2-Framework-for-Corporate-Governance---SDC-Programme.pdf>

ICT – Cyber Security:-

<https://transportforthenorth.com/wp-content/uploads/Item-8.3-IT-Audit-Cyber-Security-Controls-4.18.19-FINAL-T4N.pdf>