

Transport for the North Audit & Governance – Minutes

Meeting: Transport for the North Audit and Governance Committee

Date: Thursday 24 September 2020, 11:00am – 12:30pm

Venue: MS Teams remote meeting

Attendees:

Chris Melling, CM (Chair)	Independent Member
Cllr Keith Little, KL (Vice-Chair)	Cumbria County Council
Cllr Heather Scott, HS	Darlington Borough Council
David Pevalin, DP	Independent Member
Kevin Brady, KB	Independent Member
Cllr Chris Brewis, CB	Lincolnshire County Council
Cllr Allen Brett, AB	Rochdale MBC

Invitees:

Nicole Watson, NW	Department for Transport
Campbell Dearden, CD	External Audit, Mazars
Karen Murray, KM	External Audit, Mazars
Alex Hire, AH	Internal Audit, RSM, UK

Officers:

Dawn Madin, DM	Business Capabilities Director
Iain Craven, IC	Finance Director
Paul Kelly, PK	Financial Controller
James Lyon, JL	Legal Assistant
Julie Openshaw, JO	Head of Legal
Haddy Njie, HN	Risk Manager
David Hughes, DH	Strategy and Programme Director
Deborah Dimock, DD	Solicitor

Apologies:

Cllr Liam Robinson, LR	Liverpool City Region
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1.0 Welcome and Apologies

Action

- 1.1 Colleagues were welcomed to the meeting and apologies noted. The two new members of the Committee, Cllr Heather

Scott and Cllr Allen Brett were introduced. The Chair also extended his thanks to the previous members stepping down, Cllr Mark Winnington and Cllr Simon Blackburn.

- 1.2 The first item arising was the need to elect a new Chair and Vice Chair for the Committee. Head of Legal, Julie Openshaw took the Chair for this part of the meeting.

Cllr Chris Brewis and Cllr Keith Little nominated the existing Chair, Chris Melling to continue in his post if he was willing to accept. The motion was carried unanimously.

Chris Melling re-took the Chair to elect the position of Vice Chair. Cllr Chris Brewis nominated Cllr Keith Little to continue in post. Again, the motion was carried unanimously.

RESOLVED: Chris Melling re-elected as Chairman of the Committee.
Keith Little re-elected as Vice Chair of the Committee.

2.0 Declarations of Interest

- 2.1 There were no declarations of interest.

3.0 Minutes of the Last Meeting and Matters Arising

- 3.1 The minutes of the meeting on 16 July 2020 were considered.
- 3.2 It was noted that the two actions contained within them were to be covered on the agenda for this meeting.

RESOLVED: To accept the minutes of the meeting held on 16 July 2020 as a true and accurate record.

4.0 Audit Committee Annual Progress Report (R)

- 4.1 The Audit & Governance Committee provides an annual progress report to the TfN Board which includes its recommendation in relation to the statutory accounts. The report from the Chair summarised the work done by the Committee over the previous year, including the reports received from internal and external audit and work that the committee had requested be carried out, for consideration by the Committee.
- 4.2 The Committee's terms of reference, and the work done to address these, were included in the appendices. The terms of reference have guided the work done by the Committee over the year in relation to risk, governance and the internal

audit programme and also give it the flexibility to request specific work to be undertaken, such as the review of NPR Governance that resulted in a revised MOU with the DfT being presented to the TfN Board in March 2020. The work programme going forwards to 2020/21 is also covered.

- 4.3 The Chair noted the Internal Audits brought to the Committee over the year and recognised the positive levels of assurance in relation to TfN's control environment contained within these reports.
- 4.4 The Chair stated that the process of finalising the accounts was substantially complete by end of July in line with normal statutory deadlines. However, the audit of the pension fund had been delayed due to Covid-19 and this had a consequential impact on the ability of the auditors to sign off the accounts. TfN had therefore utilised the extended statutory deadlines to bring the 2019/20 financial statements to the Committee in September so that it could consider them and recommend them for approval at the TfN Board in November.
- 4.5 While Mazars will not formally report its audit findings until the release of ISA 260 audit opinion, subsequent to the TfN Board approving the statutory accounts, the report Committee has sufficient confidence in the accounts to recommend approval to TfN Board (subject to the satisfactory conclusion of Items 6 and 7).
- 4.6 CB noted that the Committee might be required some short-notice changes over the next financial year due to high levels of uncertainty caused by the pandemic.

RESOLVED: The committee recommended that TfN Board sign off the 2019/20 accounts.

5.0 Monthly Operating Report (P)

- 5.1 IC presented the report, taking it as read but welcomed any questions arising.
- 5.2 CB thanked TfN for the comprehensive nature of the report and noted that the long-term recovery process could take many years. IC agreed that TfN was currently facing high levels of uncertainty and added that this was covered more fully in the Risk Report (Item 10).
- 5.3 KB mentioned the remote working arrangements within the report and IC updated the Committee, noting that TfN had been in the process of moving towards re-opening its offices by the end of the year. However, the latest advice from

Government meant that this was no longer appropriate. TfN had therefore communicated to staff that remote working would now continue until February 2021. This update would be reflected in the next Operating Report and IC stressed that TfN was still working as normal and indeed had coped well with the shift to full remote working, backed up by a comprehensive staff wellbeing programme.

RESOLVED: The Committee noted the report.

6.0 External Audit (R)

- 6.1 KM presented the Audit Completion report on behalf of Mazars. She noted her thanks to the Finance Team who had worked very hard both to compile the accounts and to assist with the audit under full remote working conditions acknowledging that, while far from ideal, it had worked very well under the circumstances.
- 6.2 The report noted an outstanding item, assurance from the Pension Fund Auditor. KM noted that the finalised audit had been received from the pension fund auditors yesterday (i.e. 23 September) and that this was satisfactory. KM noted that TfN's reporting of its Pension liability had been amended slightly from the draft issue in June as a result of it having received information from the pension fund and did not present any issues or concerns.
- 6.3 KM noted the key change in the accounts vis-à-vis the draft presented in June. This related to the accounting for the write off of the intangible asset previously recognised in relation to Phase 3 of the IST Programme. KM noted the complexity of the technical accounting involved and in particular the impact on the disclosure notes in the accounts. Finally, KM advised the Committee that the issues had been comprehensively worked through by TfN and Mazars and that she was content with the resolution that had been achieved.

RESOLVED: The Committee noted the report and thanked Mazars for their work and reassuring outcome.

7.0 Year End Statutory Accounts (P)

- 7.1 Further to the explanation from the external auditors, PK took the Committee through a series of slides that detailed the process and changes that has resulted in the final accounts to be submitted to the TFN Board for approval. This presentation also highlighted the main items within the 2019/20 accounts being the impairment of historical Phase 3 expenditure and pensions accounting.

- 7.2 PK explained the modification of the accounting for the write-off of Phase 3 expenditure that arose as a consequence of technical accounting discussions during the external audit. This was conveyed as essentially a movement between two reserves as the capital reserve entry was reversed and the revenue reserve entry created to represent grant reserves for future years. It was noted that, due to the interdependencies within notes, this would also affect a number of other notes within the accounts.

It was noted that this modification and minor drafting changes, were the changes to the accounts as presented to the committee on 12 June 2020.

- 7.3 Due to the material nature of the entries, PK reiterated pension accounting to members which highlighted the effect of Covid-19 on bond markets in / around 31 March 2020 and the resultant effect on pension liabilities.

It was noted that accounting entries relating to pensions were unchanged from the accounts presented on 12 June 2020.

- 7.4 AB asked about the pension contribution at 25%; IC clarified that the figure was a combination of Employer and Employee contribution with Employee being 17.4%.

RESOLVED: The Chair thanked the Finance Team and the External Auditors for their diligence in working through the year end process and the production of the TfN financial statements and it was noted there were no further questions that would prevent the accounts being presented to TFN Board for approval (approval noted in item 4 above).

8.0 Internal Audit Reports (R)

- 8.1 RSM, TfN's internal audit provider, updated the Committee and presented two reports, Follow Up and Contract Management. AH noted that one draft report, covering Recruitment & Selection has been issued and one audit, Cyber Security, is currently in progress. The Recruitment & Selection and Cyber Security Audits will both be presented at the November Audit & Governance Committee. KB enquired if RSM foresaw any issues in completing the Cyber Security Audit in light of the remote working. AH responded that she did not envisage any problems and noted that there was good engagement with the IT team to date on the audit.

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- 8.2 A number of changes related to the Audit Plan were noted; the intended audit to the Flexitime system is postponed until 2021 to allow the new system coming in to be properly embedded. It was proposed that this should be replaced by an audit of Income Management. A further planned audit, covering the revised E-Commissioning and payment process was deferred from July until October, again to allow the new system time to bed in. That audit will be starting next month.
- 8.3 The Contract Management report noted two low and two medium priority actions, predominantly focussing on monitoring of contracts. Overall, it was noted that contracts were being managed efficiently.
- 8.4 The Follow-Up audit, looking at how actions included in previous reports had been implemented and embedded had resulted in four action points being outstanding (two medium, one low and one advisory). The reasoning behind these delays was explained and revised dates for implementation had been provided to TfN. RSM noted that it was content with TfN's response.
- 8.5 RSM thanked TfN for the cooperation received throughout the audit processes that it had undertaken.

RESOLVED: The Committee noted the reports and thanked RSM for its work.

9.0 Assurance Framework Update(R)

- 9.1 A report on this matter was specifically requested by the Committee at the previous meeting. A brief paper had been circulated and David Hughes, Strategy and Programme Director provided a verbal update.
- 9.2 The Assurance Framework has been developed to manage TfN's Long Term Investment Programme (LTIP). When TfN had developed and formally adopted its Strategic Transport Plan, the LTIP had been developed alongside it to guide and phase the investment. The Assurance Framework addresses the measures required to manage the LTIP.
- 9.3 The LTIP has been continually refined and developed into a phased delivery process; currently the Assurance Framework is at a crossroads and is awaiting further devolved powers in order to deliver that. DH noted that further development of the Assurance Framework at this stage, without any guarantees of the devolved powers necessary to deliver on the LTIP would be largely theoretical and therefore inappropriate.

- 9.4 KB referred back to the previous meeting when the matter of Assurance Framework had first been raised, expecting it to be more about addressing matters of risk and mitigating actions.
DH acknowledged that the nomenclature was not clear and could be thought of as both “assurance framework” being the general set of rules, processes and governance that TfN used on a day-to-day basis to manage its activities and “Assurance Framework” as a specific set of arrangements which sought to manage an Investment Programme as was the case here.
- 9.5 DH further clarified that the LTIP is a pipeline of schemes but TfN has no control over what is brought forward due to the funding being controlled by DfT and its agencies. TfN was actively seeking further devolved powers to better manage the investment pipeline. The Assurance Framework as it stands at the moment is an outline plan of measures to be taken to assure the management of the proposed LTIP.
- 9.6 The terminology used was again referenced with regards to the Risk Register which referred to the “assurance framework”; the Committee stated that it was vital to distinguish between the assurance of the Investment Programme and the assurance of TfN’s normal activities.
- 9.7 IC acknowledged this and stated that the original thinking behind the Assurance Framework was to demonstrate to Constituent Authorities that a defined and consistent set of rules and assessments was being applied to all projects being put to TfN. This was separate from the system of policies, procedures and controls that constituted the framework through which TfN operates – which might be collectively described as its “assurance framework”. He agreed that steps should be taken to address the confusion within the naming, and also that references to the Assurance Framework / assurance framework in the risk register would be individually considered and amended if necessary.

RESOLVED: The Committee noted the report and requested that it be kept informed of the process as it developed. The Chair welcomed TfN thinking ahead to the governance and processes that might be required in future and asked for further updates as the LTIP and the governance surrounding its management progressed.

10.0 Corporate Risk Register (R)

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- 10.1 HN presented the Risk Report, summarising the three main changes to the report. She advised that the responsibility for the Political and Reputational Risk item which had previously sat with Dawn Madin (Director of Business Capabilities) and Iain Craven (Finance Director) had been amended so that Dawn Madin had been replaced by Barry White (CEO).
- 10.2 The attention of the Committee was drawn to the high level of risk across many of the programmes, and HN noted that as had previously been discussed, this is caused by the lack of direct control that TfN has over many of the matters that are included in its key objectives.
- 10.3 Risk within the NPR Programme had been revised to include the cost increases and the consequential impact on the benefit/cost ratios. HN also noted the risk that TfN might miss the March 2021 deadline for submission of the SOC due to the reduced time that partners had to engage with the sifting process, and also noted the mitigations that had been put in place to manage this risk.
- 10.4 Finally, HN noted that one of the mitigating factors in relation to the Decarbonisation risk, the employment of an Environmental and Sustainability Officer, had now been done. HN also mentioned TfN's increasingly comprehensive modelling capabilities which counted as high-mitigation inputs to the risk register. DH added that an update on decarbonisation and the related modelling work would be presented to TfN Board in November. The Chair said that the Decarbonisation was of significant interest to Scrutiny Committee as well and requested regular updates within the Risk Register.
- 10.5 HN briefly mentioned the ongoing updates to the risk process including the planned move from a 4x4 risk matrix to a more comprehensive 5x5 matrix.

RESOLVED: The Committee noted the Risk Report and thanked HN for the detail within it.

11.0 Next Committee Dates

- 11.1 The Committee noted the next meeting of 19th November.
- 11.2 In line with recent Government announcements around remote working, it would be a virtual meeting and an invitation would be sent shortly.

12.0 Any Other Business

- 12.1 No other items of business were raised.

The meeting concluded at 12:25pm

r = report; p = presentation; v = verbal

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