

Transport for the North Audit & Governance – Minutes

Meeting: Transport for the North Audit and Governance Committee

Date: Thursday 18 February 2021, 11:00am – 12:15pm

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
Kevin Brady, KB	Independent Member
David Pevalin, DP	Independent Member
Cllr Chris Brewis, CB	Lincolnshire County Council
Cllr Liam Robinson, LR	Liverpool City Region
Cllr Allen Brett, AB	Rochdale MBC

Invitees:

Campbell Dearden, CD	External Audit, Mazars
Karen Murray, KM	External Audit, Mazars
Lisa Randall, LR	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
Deborah Dimock, DD	Solicitor

Apologies:

1.0 Welcome and Apologies

Action

- 1.1 There were no apologies received and the meeting was quorate.

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 19 November 2020 were considered.
- 3.2 Action point 4.4 from the minutes concerning a TAME report, was noted to be contained within the Operating Report. The action points of Annual Governance Review and dates of future meetings are addressed in this meeting.

RESOLVED: To accept the minutes of the meeting held on 19 November 2020 as a true and accurate record.

4.0 Monthly Operating Report (R)

- 4.1 The report was noted, and Iain Craven advised that the January report, published after the Audit & Governance papers had been circulated, could be found on the Transport for the North website. The matter of funding cuts to TfN, both Core and IST, were highlighted to the Committee. IC invited any questions arising from the Operating Report.
- 4.2 Cllr Allen Brett enquired about a rail issue, however as it was not directly related to Committee business, IC advised that he would pass the matter onto the Strategic Rail Director to be picked up offline.
- 4.3 Kevin Brady asked if the cessation of IST funding impacted other areas of the business: IC advised that TfN was actively considering how to retain some IST capacity / capability as this was an important priority for members.

RESOLVED: The report was noted.

5.0 Internal Audit Update (R)

- 5.1 Lisa Randall advised that the remaining work for 2020/21 had been completed with the presentation of the three audit reports today and good progress made with the plan for 2021/22 (to be covered in Item 6).
- 5.2 She acknowledged the support of the management team within TfN for enabling full completion of the audits in spite of full remote working.

5.3 Investment Programme Assurance Review

The report was positive, with some context in terms of the sequencing of the framework as well as background information on the process and governance arrangements.

The one medium-term action arising from it was requesting integration of the outcomes from Northern Transport Charter, the investment programme and the Business Plan KPIs. TfN had agreed that this would form part of the business planning cycle for 2021/22 and a follow-up audit would be conducted.

5.4 **New Payment (Commissioning) Process**

The transition to a fully automated system, especially under full remote working, was noted as exceptional. Compliance and data analytics testing had revealed no areas of concern and the work to embed and integrate the system was praised.

5.5 **Income and Debtor Management**

A low priority action point regarding the cyclical updating of the grant acceptance and management policies was noted. However, the overall audit had provided substantive assurance.

5.6 The Chair thanked RSM for its work under full remote working conditions, adding that its reports were very reassuring to the Committee.

RESOLVED: The Committee noted the reports.

6.0 **Internal Audit Strategy 2021/22 (R)**

6.1 LR highlighted the main areas for audit in the next financial year including governance and risk management reviews, the new flexi-time system and follow-up audits based on previous year's management actions.

6.2 KB asked about the review of governance arrangements during and post-Covid; LR reassured the Committee that the aim was to ensure that good governance and adherence to the constitutional arrangements had prevailed throughout the period of remote working and as the organisation transitioned back to normal working as restrictions were gradually eased. IC added that the exact objectives and scope would be agreed prior to the audit.

6.3 It was noted that a review of risk management contained many aspects that were unique to TfN in terms of deliverables and programme activity. On this basis, the audit would look at the overall framework and benchmark that rather than focussing on individual risks.

- 6.4 Liam Robinson questioned the audit plan based on the resourcing required and cross-referencing that to the funding cuts; IC replied that the overall scale of TfN's operations was driven by the NPR programme and that the level of activity in 2021/22 was currently budgeted to be broadly consistent with 2020/21.
- 6.5 KB requested that the second paragraph (page 98 in the pack) was re-phrased to cover the cybersecurity and GDPR follow up audit matters.

Action: RSM to re-phrase the wording to better describe the plan for ongoing cybersecurity audits.

7.0 External Audit Update (R)

7.1 Annual Audit Letter

Karen Murray presented the Annual Audit Letter noting that TfN's accounts had been signed off on 18th November 2020, including a VfM conclusion.

- 7.2 The report also contained the summary of the audit completion work discussed in detail at the November meeting. An additional payment to Mazars of £4,200 was charged as a result of complexities introduced into the audit due to changes in the IST programme which had caused significant amendments to the accounts and the way in which the changes were managed.

7.3 Audit Strategy Memorandum

This officially opened the work for the 2021/22 financial year, setting out the work that Mazars expected to do in order to deliver a compliant audit and the timeline required, the main points being the accounts ready by end of July for to enable the audit to be completed by the end of September.

- 7.4 The Memorandum also noted the potential risk areas identified that the planned work would seek to address, although KM added that the revenue recognition risk had been rebutted as not applying to TfN due to the grant-funded nature of the organisation. There remained two significant risks and one enhanced risk; management override of controls, pension liability valuation and Phase 2 of the IST scheme. The final risk concerned the novation and complex transactional nature of the scheme.

7.5 The report outlined the three criteria to be considered in the Value for Money audit, and the materiality that would apply in conducting the financial statements audit.

7.6 **Audit Progress Report**

Campbell Dearden highlighted the reporting changes for the new financial year advising that a commentary in the annual report would be given rather than a formal conclusion and this would replace the Annual Audit Letter.

7.7 He also noted some supplemental reports included in the pack which covered the wider nature of audit work and detailed ongoing changes in the sector which Mazars had either adopted already or were incorporating into their future work.

RESOLVED: The Chair thanked Mazars for their work, especially the inclusion of the supplemental reports.

8.0 **Treasury Management Strategy (R)**

8.1 Paul Kelly provided a brief overview of both the Treasury Management Strategy and the Accounting Policies (Item 9) advising that they were reviewed every year, with additional progress reports on the TMS that occurred mid-year.

8.2 He reminded the Committee that TfN is a solely grant-funded organisation that does not have access to credit (including overdrafts) and that creditworthiness and the ability to pay contracts, especially multi-year arrangements, remained the key driving force behind the treasury strategy. The main change from the previous year concerned the very low yields that were available in the market, even against a background of sustained low interest rates. PK noted that the strategy would remain focused on creditworthiness, rather than pursuing marginal yield.

8.3 The chair raised the possibility of negative yield going forward. PK reaffirmed TfN would prioritise creditworthiness in these circumstances, i.e. accepting a marginal cost for the security of low risk counterparties.

8.4 TfN's 2021/22 budget will include the release of general fund reserves to present a funded budget and this would require Board approval.

RESOLVED: The Committee approved the Treasury Management Strategy.

9.0 **Accounting Policies (R)**

- 9.1 PK then presented the Committee with the proposed accounting policies. These policies, driven by IFRS and CIPFA code requirements, detail how TfN will account for transactions that it undertakes in the discharge of its responsibilities and form part of the overall accounts.
- 9.2 The matter of IST programme accounting was noted as Phase 2 assets are transferred out of TfN's books to their end user which could be DfT or a Local Transport Authority. It was recognised these transactions could occur within 2020/21 but are more likely to occur in 2021/22. Technical advice will be sought to confirm accounting treatment.

This cross-referenced the point made by External Audit (minute 7.4).

RESOLVED: The Committee noted the report

10.0 Annual Governance Statement (R)

- 10.1 Deborah Dimock presented the first draft of the Annual Governance Statement. The final version, due for publication in May would include feedback from members including the Audit & Governance Committee.
- 10.2 A review of the Anti-Fraud and Corruption Policy has also been completed and DD also outlined the ongoing staff training around the recently revised Whistleblowing Policy. The Anti-Fraud & Corruption Policy is contained in the terms of reference for the Committee and DD summarised the roles of the statutory officers, the financial controls within the system, the data protection methods and the supporting policies (e.g. Whistleblowing) that formed the overall Anti-Fraud & Corruption Policy
- 10.3 The forced move to full remote working and virtual meetings was noted as proceeding with no issues and formed an important part of TfN's commitment to transparency. Cllr Brewis added that TfN's webinars and online conferences had provided an essential service in publicising TfN's work and he expressed the desire to see these continued.
- 10.4 A review of the Constitution is being held in abeyance until publication of the Williams Review in order to incorporate any changes arising. The further development of the Assurance Framework is also held pending the anticipated Government white paper on devolution.
- 10.5 DD noted that in the Governance Challenges for the year 2021/22 a review of TfN Board and Committees was

planned, in particular the General Purposes Committee (a review having been requested by TfN Board members). A review of the working of the Scrutiny function was also planned with detailed consideration of the Scrutiny First policy which had been adopted by TfN.

RESOLVED: The Committee approved the draft, and there were no questions arising at this time. The Committee acknowledged that it had received and was satisfied with the measures outlined in the Anti-Fraud & Corruption Policy.

11.0 Corporate Risk Report (R)

- 11.1 IC presented the Risk Report noting the increase in high risk items and advising that some of this was a consequence of the extent to which TfN was tasked with delivering objectives in the absence of more than limited control over the environment in which it operates.
- 11.2 The issues were being reported through and addressed by TfN governance processes, including reports to TfN Board, and IC summarised some of the underlying causes behind the risks, including Covid-19 and funding cuts. For example, the Covid-19 had impacted the Strategic Rail objectives in terms of both service improvements being delivered across the North and the ability to justify infrastructure improvements.
- 11.3 The risks connected with TfN's two flagship programmes, IST and NPR, were described in more detail. Withdrawal of funding for the IST programme essentially rendered TfN incapable of delivering any of its stated objectives which in turn meant that the risks were now a certainty.
- 11.4 The request from DfT that the publication of the NPR SOC be delayed until after the Integrated Rail Plan is published, meaning that the target date for submission will be missed (albeit at the request of the DfT as co-client on the programme).
- 11.5 The Committee acknowledged the difficulty of resolving the risks due to the lack of direct control. However, the detail with the report and the governance measures alongside it were noted and welcomed.
- 11.6 The revised format of the Corporate Risk Report was presented for comment, with IC noting that the current format was proving problematic for ongoing updates. The revised format was intended to be more user-friendly and

easier to read and IC commented that it was based on reviews of risk registers from other organisations.

- 11.7 KB asked if it could include a measure of how the risk was shared between TfN and DfT to better indicate the areas that TfN had little control over. David Pevalin asked for further split between the central risk theme and related sub-themes noting that a range of smaller minor risks could combine to form an accumulated risk that had a much higher rating. The comments were noted, although IC explained that some of the risk was due to the matters that TfN was being asked to do on behalf of members and the governance framework within which it was operating, specifically the lack of devolved powers.
- 11.8 The aim was to move to the revised format in time for presentation at the TfN Board meeting in July and the Committee was asked to give any feedback via email.

12.0 Any Other Business (V)

- 12.1 The Chair requested that dates for the rest of the calendar years were set and, following a brief summary of related governance dates, the Audit & Governance Committee dates were set as:

Thursday 10th June 2021
Thursday 15th July 2021
Thursday 16th September 2021

Holding slots would be sent out until there was greater certainty around virtual meetings vs a potential return to in person meetings.

- 12.2 KM advised that the consultation from MHCLG had again extended the deadline for accounts (and therefore the publication of the Annual Governance Statement) to end of July rather than May as was normal, therefore the final draft would be presented to the Committee at the June meeting.

The meeting concluded at 12:40pm

r = report; p = presentation; v = verbal