

# Transport for the North Audit & Governance – Minutes

**Meeting:** Transport for the North Audit and Governance Committee

**Date:** Thursday 10 June 2021, 11:00am – 12:40pm

**Venue:** MS Teams remote meeting

## Attendees:

Chris Melling (Chair)	Independent Member
Cllr Keith Little (Vice-Chair)	Cumbria County Council
Kevin Brady	Independent Member
David Pevalin	Independent Member
Graham Bell	Observer
Cllr Liam Robinson	Liverpool City Region
Cllr Heather Scott	Tees Valley

## Invitees:

Karen Murray	External Audit, Mazars
Alex Hire	Internal Audit, RSM UK
Euan Miller	Greater Manchester Pension Fund
Dominic Jeffrey	Policy Advisor, DfT

## Officers:

Paul Kelly	Financial Controller
Haddy Njie	Risk Manager
James Lyon	Legal Assistant
Deborah Dimock	Solicitor

## Apologies:

Iain Craven	Finance Director
Julie Openshaw	Head of Legal

## 1.0 Welcome and Apologies

## Action

- 1.1 Apologies from Iain Craven (Finance Director) and Julie Openshaw (Head of Legal). The meeting was attended by their respective deputies, Paul Kelly (Deputy S151 Officer & Financial Controller) and Deborah Dimock (Solicitor). The Chair welcomed Graham Bell as an observer prior to him joining the Audit & Governance Committee as an independent member in July.

- 1.2 The Chair advised that, due to the change in regulations around virtual meetings as Covid restrictions were gradually lifted but with the continuing requirements for social distancing, this was not a formal meeting of Audit & Governance Committee, but a Consultation Call held under the delegated powers of the Section 151 Officer.

## **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 There were no matters of accuracy arising from the minutes.

**RESOLVED:** To note the minutes of the meeting held on 18 February 2021 as a true and accurate record prior to formal approval at the next in-person meeting.

## **4.0 Monthly Operating Report (R)**

- 4.1 The report was taken as read however Paul Kelly highlighted a new section within the Finance area concerning expenditure control which more proactively managed budgets on a monthly basis rather than quarterly.
- 4.2 Kevin Brady enquired about the IST programme, asking if it had been completely closed down and noting the importance of retaining the knowledge which had been built up within the team; Paul Kelly advised that the programme itself had ceased but a role had been created within the Strategic Rail team to coordinate IST activities across the North. The role was currently being recruited, however here were no candidates identified within the existing IST team for the new strategic role.
- 4.3 The Chair commented on the roll-out of the new Risk Management system, Predict, as noted in the report and Haddy Njie advised that this would be covered in further detail later in the agenda.

**RESOLVED:** The report was noted.

## **5.0 Financial Outturn Report (R)**

- 5.1 Paul Kelly reminded the Committee of the purpose of the report, tracking the budget and expected financial position throughout the year with this report noting the closing position at the end of the financial year 2020/21.

- 5.2 The report also allowed TfN to accurately assess its reserve position and therefore provide a firm base on which to consider use of these reserves over the forthcoming years.
- 5.3 It was noted that TfN's Balance Sheet had moved from a position of overall net asset to overall net liability, driven by the treatment of intangible assets from the IST programme and accounting for the pension fund.
- 5.4 The chairman enquired about whether spend deferred from 2020/21 due to the pandemic would be realised in 2021/22. Paul Kelly stated the budget for 2021/22 had been compiled to include activity not delivered in 2020/21 due to the pandemic such as conferences and face to face (as opposed to remote) meetings.
- 5.5 The nature of TfN's funding situation was raised by Cllr Liam Robinson in the context of stress testing and scenario planning for future scenarios that could include further funding reductions. Paul Kelly reiterated the intention to focus on the business planning process that would be conducted later in the year and ideally after publication of the Integrated Rail Plan and the Comprehensive Spending Review both of which would be likely to inform future strategic direction.
- 5.6 Euan Miller provided an update on the TfN Pension Scheme with Greater Manchester Pension Fund (GMPF). GMPF is the largest of the 87 regional funds under the Local Government Pension Scheme with about 650 employers signed up to it including all the councils of Manchester and TfGM.
- 5.7 The basics of how the scheme functioned was described along with some of the assumptions that drove the fund management such as retirement age and inflation.
- 5.8 Euan described the two main pension fund valuation measures, i.e. the funding valuation and the IAS 19 valuation.

The former is measured every three years and forms the basis of funding contributions to be made by TfN for the following three years. The next valuation was due on 31 March 2022 and scheduled to be effective from 1 April 2023.

The latter is a measurement that is intended to allow comparison across other scheme members. Euan indicated that the vast majority of employers, using the IAS 19 valuation measurement, would show a deficit. Euan indicated TfN were therefore not unusual in showing a pension deficit.

Euan clarified that funding valuations produced different results due to the assessment of investment returns. The investment return for the funding valuation methodology was c3.5% whereas the investment return for the IAS 19 valuation methodology was set at c2.05%. This difference was the key driver to the different valuations.

- 5.9 Cllr Liam Robinson enquired about whether TfN had considered, or could benefit from, pension pooling. Euan indicated it was the very small employers that tended to benefit from pooling as the bigger employers (TfN included) were less exposed to isolated risks. However, if TfN were to subcontract out some of its activities, pooling could be a consideration.
- 5.10 Cllr Liam Robinson enquired whether the pension fund could invest in Northern infrastructure schemes. Euan indicated GMPF had an allocation of 5% to invest in local investments and also was part of a Northern pool including Merseyside and West Yorkshire schemes that invested in infrastructure schemes. The biggest challenge was being able to accurately assess scheme returns where they had yet to be built and/or had a long payback period.
- 5.11 The Chair asked if the Committee should be concerned with the findings and the level of deficit; Euan Miller replied that due to the calculations used it was always going to show a deficit and the level, while high, was not overly unusual. Euan reiterated the funding valuation, to be performed in March 2022 and effective from April 2023 for three years, was the more critical valuation to be considered. We would update the committee in due course.

**RESOLVED:** The Committee noted the reports and commented on the comprehensive and easily understandable nature of the Outturn.

**RESOLVED:** The Committee also thanked Euan Miller for his presentation at the meeting and would welcome further updates.

## **6.0 Review of Value for Money Self-Assessment (R)**

- 6.1 It was reported that in order to demonstrate the effectiveness of challenge provided by Audit & Governance Committee under the new Code of Audit Practice 2020, the external auditors Mazars had requested that TfN Management and the Committee members completed Value for Money self-assessments.

- 6.2 The responses had been collated with the answers to the self-assessment questions being linked back to the Annual Governance Statement (approved at the previous meeting) which demonstrates how TfN adheres to best practice in matters of finance and governance. The draft self-assessments had previously been sent to all Members of the Committee and their comments had been taken into account in the final draft being considered by the Committee.
- 6.3 The Chair asked Members if they had any concerns or issues with the self-assessment; Cllr Liam Robinson asked if in future years it could come to the Committee first so it could be factored into their work programme although he acknowledged the difficulties of managing this within the current virtual meeting circumstances.
- 6.4 Karen Murray added that, from an external audit perspective, the evidence for Mazars to reach their judgment on value for money needed to be with them in the final quarter of the financial year, at the same time as the Annual Governance Statement is approved. This had not been possible on this occasion but would be the standard timeline in future.
- 6.5 There were questions as to how concerns previously raised by Members had been addressed; it was clarified that the concern about future funding which had been raised was addressed by a reference to the risk being included as a specific risk in the Corporate Risk Register.

**RESOLVED:** The Committee confirmed that they were satisfied with the draft self-assessments and that they had no concerns in relation to the arrangements in place to secure value for money.

## **7.0 External Audit Progress Report (R)**

- 7.1 Karen Murray advised the Committee that Mazars were just commencing the audit of the accounts and had little further to report; a full report would be delivered at the meeting in September. Early indications showed nothing to be concerned about.
- 7.2 Mazars also supplied a set of external documents covering a range of audit matters including the audit timeline which had been adjusted by MHCLG to September for 2021 and 2022 due to the impact of the pandemic.

**RESOLVED:** The reports were noted and there were no questions.

**8.0 Internal Audit Update**  
**a. Follow Up Audit**  
**b. Progress Report June 2021**  
**c. Annual Summary 2020/21**

- 8.1 Alex Hire introduced the reports briefly picking out the key points. Within the Follow Up Audit, good progress had been made in implementing the changes with only three actions ongoing; these actions had been given revised implementation dates and assigned to the relevant member of TfN staff.
- 8.2 It was noted that the remaining items were connected with IT: RSM clarified that the failure to complete the penetration testing was solely due to working remotely and that to date the methods of follow up had been well supported and assisted by TfN under full remote working conditions.
- 8.3 Kevin Brady asked why some of the actions were on hold until the new CEO had started in his role; Paul Kelly advised that he would seek clarification on this and report at the next meeting.
- 8.4 The remaining reports were taken as read and there were no further questions on the internal audit.

**RESOLVED:** The Committee thanked RSM for their work and the reports.

**Action:** Paul Kelly to follow up on 8.3.

**9.0 Corporate Risk Register (R)**

- 9.1 Haddy Njie reminded the Committee that it had signed off the revamped template at the previous meeting and the key risk themes, descriptions and mitigations had now been imported into the new template which was presented to the Committee.
- 9.2 Sections 2 and 3 had remained largely unchanged, showing how TfN assessed and measured its risks. Section 1 and 4 had undergone significant changes to better show the levels of risk and the methods of mitigation.
- 9.3 The main points of the changes were explained to the Committee which included dates of review and the status of the risk, describing it as ongoing, completed and so on.
- 9.4 The IST risks had been removed due to the termination of the programme. Kevin Brady commented that the political risk section was highly dependent on the delivery of IST and

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as that programme had ceased, this risk had effectively now materialised; however there was a disconnect in the way that the Register reported this.

- 9.5 Significant updates had been made to the NPR risk due to the delay in publication of the IRP which was impacting both on delivery of the NPR Strategic Outline Case and the potential need to revise some aspects of the Preferred Network.
- 9.6 The risks around Decarbonisation had also received updates due to TfN's new Decarbonisation Consultation which opened up the possibility that TfN's developing strategy on the topic might not be aligned with the national policy.
- 9.7 Members noted that some of the risks remained at High and Very High levels and the question was asked if TfN could better mitigate some of them. However, Members welcomed the extra detail given in the revised report as a method of better monitoring and addressing risks.
- 9.8 Haddy Njie further advised that the new risk management system, Predict, was being embedded and so far, had been well received with staff being trained on its usage as it was rolled out.

**RESOLVED:** The new format of the Risk Register was received very positively by the Committee and the extra detail praised.

## **10.0 Any Other Business**

- 10.1 The matter of the 15 July meeting was touched upon with further information to follow as to whether it would be held in-person (in which case it would be in Manchester) or virtually depending on the nature of Covid restrictions.

**The meeting concluded at 12:40pm**

r = report; p = presentation; v = verbal