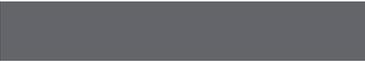


TRANSPORT FOR THE NORTH

Internal Audit Progress Report

16 September 2021

This report is solely for the use of the persons to whom it is addressed.
To the fullest extent permitted by law, RSM Risk Assurance Services LLP
will accept no responsibility or liability in respect of this report to any other party.



Contents

Contents	2
1 Key messages	3
2 Reports	4
Appendix A – Progress against the internal audit plan 2021/22	7
Appendix B – Other matters	8
For more information contact	11

1 Key messages

The internal audit plan for 2021/22 was approved at the February 2021 Audit and Governance Committee meeting. As the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile, we will work closely with management to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in the current circumstances.

This report provides an update on progress against that plan and summarises the results of our work to date.



We have issued two audit assignment reports since the last Audit and Governance Committee meeting held in July 2021. These relate to the Governance Effectiveness Arrangements (2.21/22) review which concluded that the Board could take 'reasonable' assurance and the Risk Management Strategy (3.21/22) review which concluded that the Board could take 'substantial' assurance. Both reports are referred to at Appendix A. [\[To discuss and note\]](#)



Fieldwork dates have been agreed for the remaining internal audit reviews for 2021/22. Scoping meeting to discuss the focus of these reviews are currently taking place. [\[To note\]](#)



No changes have been made to the internal audit plan 2021/22 since the last Audit and Governance Committee meeting. [\[To note\]](#)

2 Reports

2.1 Summary of final reports being presented to this committee meeting

This section summarises the reports that have been finalised since the last meeting.

Assignment	Opinion issued	Actions agreed		
		L	M	H

Governance Effectiveness Arrangements (2.21/22)

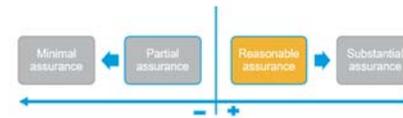
From the areas considered as part of this review we confirm that an established governance framework is in place, as defined in the TfN Constitution and the Annual Governance Statement. The framework details the roles and responsibilities of key members of the governance structure and provides requirements in regard to the governance operations of TfN. The Covid-19 pandemic has changed but not disrupted the delivery of TfN’s governance framework. For example, meetings have been conducted remotely during the Government lockdowns.

Through our document review and meeting observation we were able to confirm that controls were mainly operating as intended in regard to the delivery of TfN Board and Committee meetings. Whilst we did not identify any major gaps in controls that highlight an immediate high risk, we did note minor exceptions in relation to our testing on Members’ declarations of business interests as well as several areas where the control framework could be further strengthened in relation to Board reports, action tracking and Member inductions. These matters, resulting in two ‘medium’ and five ‘low’ priority management actions being agreed, have been considered when forming our overall opinion. It is noted that since our fieldwork was completed in July 2021, management has confirmed that progress has been made towards implementing the agreed management actions.

During our review we utilised the 4Questionnaire tool for Members and Senior Officers to provide feedback on current governance arrangements. Responses were received from 11 recipients and indicated that overall, there is a clear understanding of the roles and generally satisfaction with Board reports and Board administration.

Reasonable Assurance

5 2 0





Assignment	Opinion issued	Actions agreed		
		L	M	H

Risk Management Strategy (3.21/22)

Through our work we confirmed that TfN has established processes in place for the identification and assessment of risk, and for the reporting of risk information to senior management and TfN Board members. This is now supported by the Predict! system following its implementation in the spring/summer of 2021.

We recognise that the risk data had only recently been migrated to the Predict! system at the time of our review and, as such, some of the fields within the system had not been fully populated at that point.

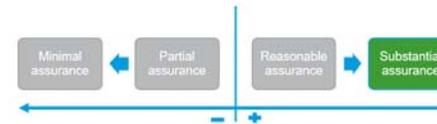
However, we were able to confirm that the organisation’s standards regarding the identification and recording of risks and controls/actions were being followed consistently for the areas we reviewed.

Whilst clearly established processes are in place to support the risk management process, we identified some areas where we consider the procedures could be improved in this area. These relate to the updating of the Risk Management Strategy document, and the consistent recording of information in the Predict! system and the Corporate Risk Register reports.

Two management actions have been agreed which are designed to support management with their ongoing work in this area. However, these matters have not impacted upon the positive assurance opinion provided.

Substantial Assurance

2 0 0



2.2 Themes arising from control observations in 2021/22 reports

	Low	Medium	High
Planning	0	0	0
Policies and / or procedures	1	0	0
Non-compliance with policies / procedures	0	1	0
Design of the control framework	0	0	0
Training / awareness for staff	0	1	0
Management or performance information	1	0	0
Lack of segregation of duties	0	0	0
Poor record keeping	0	0	0
Risk Management	0	0	0
Governance weaknesses	5	0	0
Information technology	0	0	0
Total	7	2	0

The theme with the highest number of aligned management actions to date is 'Governance weaknesses'. It is noted that all five of these actions relate to the Governance Effectiveness Arrangements (2.21/22) review.

Appendix A – Progress against the internal audit plan 2021/22

Assignment and Executive Lead	Status / Opinion issued	Actions agreed			Target Audit and Governance Committee (as per IA plan 2021/22 / change control)	Actual Audit and Governance Committee
		L	M	H		
Follow Up (1.20/21) (Finance Director)	Good Progress	13 of 16 actions completed			July 2021	June 2021
Governance Effectiveness Arrangements (2.21/22) (Director of Business Capabilities)	Reasonable Assurance	5	2	0	July 2021 / September 2021 ¹	September 2021
Risk Management Strategy (3.21/22) (Finance Director)	Substantial Assurance	2	0	0	September 2021	September 2021
Purchase to Pay Framework (Finance Director)	Due to commence 4 October 2021.	n/a			December 2021	n/a
Flexi-Time (Director of Business Capabilities)	Due to commence 18 October 2021.	n/a			December 2021	n/a
IT Audit: Cyber Security or GDPR Governance (Director of Business Capabilities)	Due to commence 17 January 2022.	n/a			March 2022	n/a

1 This review incorporated the use of a questionnaire issued to TfN Members and Senior Officers to gain insight into TfN's governance arrangements. The questionnaire closing date was extended until mid-June in agreement with management to provide the opportunity to obtain as many responses as possible.

Appendix B – Other matters

On-going liaison

Ongoing liaison has taken place between RSM and Iain Craven to discuss audit assignment scopes for 2021/22 and ongoing developments at TfN.

Updates, briefings and invites

The following updates, briefings and invites have been issued since the last Audit and Governance Committee meeting:

- Employment Matters (August 2021) – this is summarised below and we have incorporated a link to the full newsletter for further reading;
- We invited management/members at TfN to our:
 - RSM NED Network - The Good Board; and
 - Embracing the future of work - hybrid working event that took place on 19 July 2021.

Employment Matters – August 2021 - <https://www.rsmuk.com/ideas-and-insights/employment-matters>

The Hybrid working revolution – do employment contracts now need to change? - For many, the pandemic brought government-mandated working from home (WFH). The Government has also flirted with the introduction of a permanent right for employees to work from home, as part of a right for all employees to work flexibly. With the delay to the expected Employment Bill, no such right has yet been announced. With effect from 19 July 2021, the Government workplace guidance is now: 'The Government is no longer instructing people to work from home if they can, so employers can start to plan a return to workplaces.' ACAS has issued guidance on hybrid working, which recommends the formulation of a hybrid working policy. Developing this after staff surveys to establish staff sentiment clearly makes sense. ACAS has also published the results of a survey showing that over half of employers expect an increase in employee requests for flexible working. When a change is made it will be a contractual change, so it needs to be agreed after fair consultation and be clearly documented.

Coronavirus and Jitterbugs: Dealing with return-to-office anxieties - Now that restrictions on UK businesses have started to ease, many employers are starting to plan a return to the office. The government has suggested a gradual return over the summer months, giving employers time to consider longer term strategies. The office is a place where new talent recruited during the pandemic can be developed and nurtured, a key consideration for bigger firms with a lot of new staff. It's also a place where collaboration can happen more organically. On the other hand, without the daily commute a lot of people have found their work-life balance much easier to achieve. Employers will need to demonstrate to employees that government guidelines are being followed, and that the office's layout, cleanliness, and ventilation has been reviewed and improved where necessary. Updating staff on how the offices are being prepared for their return is important.



Now is the time to take stock of your payroll - The payroll world has come to the close of a particularly busy time, seeing out year-end by completing tasks such as P60s and P11ds. Although payroll is always moving, and certainly busy, the summer months are a great opportunity to take a breath and think about how the payroll is working. Payroll can be a complex and time-consuming task, so a deep dive review on a regular basis can assist in streamlining to ensure it works both efficiently and accurately. With many employers having used, or still using, the furlough scheme, it's of even greater importance to take stock of the payroll. Many employers have used furlough and flexible furlough throughout the past 16 months and will know that with it came some complexities. As the Coronavirus Job Retention Scheme (CJRS) became embedded the guidance was regularly updated, and that may well mean that some of the earlier calculations used by employers could now be outdated. As more and more employers start to reduce their use of the scheme, or even stop making use of it, it is an excellent time to go back and review the claims made and the calculations used to raise those claims. Once CJRS comes to a complete end it will then become something HMRC look to audit, and it is important for employers to be prepared and comfortable that they have accurately calculated claims in line with the current guidance.

Hybrid working – the employment tax considerations - The coronavirus pandemic has accelerated a move towards hybrid working, which allows employees to split their time between traditional workplaces like offices and working remotely (usually from home). As employers start to formulate their new policies it is also important to consider the wider implications of hybrid working. It is also necessary to think about threats to IT security where employees are working remotely, particularly in certain overseas jurisdictions, as well as the impact of hybrid working on the demand for office space. In relation to hybrid working, HMRC makes the point that in many cases home working is a personal choice. While a home may also be a place of work, it may not necessarily be a permanent workplace for tax purposes. Under existing rules, where an employer provides an employee with home office equipment (for example a desk or printer) for the sole purpose of enabling the employee to work, and any private use of that equipment is insignificant, the provision of the equipment should be exempt from tax and NIC. This exemption is conditional on the employer retaining ownership of the equipment. A tax liability may arise if ownership of the equipment passes to the employee, so care needs to be taken when the old equipment is updated or replaced. In summary, hybrid working is undoubtedly here to stay for many of us. It is therefore important that employers determine their policy across all affected areas of the business and update their processes, procedures, and controls accordingly.

Non-resident directors of UK companies and the tax implications - Non-UK resident directors of UK companies visiting the UK to perform duties associated with their board role are office holders, so salaries or fees paid to them are subject to PAYE. Employee and employer Class 1 NIC may also be due under PAYE on salaries or fees paid to non-UK resident directors. For NIC, however, there are potential concessions and regulations which, if relevant, may ultimately mean that there is no liability for UK Class 1 NIC on the director's earnings. All UK companies with overseas based directors who may start to travel to the UK again on board business should consider reviewing existing arrangements to ensure that tax and NIC obligations are being met. In particular, UK companies in this situation should consider, how to calculate the appropriate level of earnings. The requirement to obtain a special direction (s690 application) from HMRC, which will allow the company to deduct tax only from that part of the director's salary or fees which are attributable to estimated UK duties. Whether the director's earnings are liable to employee and employer Class 1 NIC, or whether concessions or regulations apply which remove this requirement. Alerting the director to their requirement to complete a personal tax return in the UK in respect of the UK directorship and how to mitigate any potential double taxation.



Post assignment surveys

We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

We would like to give you the opportunity to consider how frequently you receive these feedback requests; and whether the current format works. Options available are:

- After each review (current option).
- Monthly / quarterly / annual feedback request.
- Executive lead only, or executive lead and key team members.



For more information contact

Lisa Randall, Head of Internal Audit

lisa.randall@rsmuk.com

07730 300 309

Alex Hire, Senior Manager

alex.hire@rsmuk.com

07970 641 757

Andrew Mawdsley, Assistant Manager

Andrew.mawdsley@rsmuk.com

07734 683 992

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Transport for the North and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.