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| <b>Meeting:</b>      | Transport for the North Board                            |
| <b>Subject:</b>      | Annual Report of the Audit & Governance Committee        |
| <b>Author:</b>       | Chris Melling, Chair of the Audit & Governance Committee |
| <b>Sponsor:</b>      | Iain Craven, Finance Director                            |
| <b>Meeting Date:</b> | 29 September 2021  |

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## **1. Purpose of the Report:**

- 1.1 This report updates Transport for the North Board on the work undertaken by the Audit & Governance Committee over the last 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.
- 1.2 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, subject to changes in Board membership over the course of the year, and three independent members (and increasing to four, subject to Board's approval of the appointment of a fourth member) recruited on the basis of relevant skills.
- 2.3 The Committee's terms of reference are appended to this report for reference (Appendix 6.2a), 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 2020/21 financial year the Committee met five times, with a Chair appointed from its independent members. These meetings were remote and took advantage of short term Covid legislation that did not require them to be held in person. The committee has not met formally since the 2020/21 year-end – instead three Consultation Calls have been convened by the Finance Director (using his delegated powers) to enable the regular consideration of business once the legislation that had allowed for remote meetings to be held had expired, but where ongoing restrictions due to the pandemic meant that in person public meetings were not considered to be appropriate. It was intended that the Consultation Call held on 16 September would be a formal meeting of the committee but this was not possible due to

quoracy issues (although sufficient members attended the Consultation Call that it would have been quorate had it been possible to meet in person).

- 2.5 Given the environment of uncertainty within which TfN continues to operate, the Committee has focused on risk management, with the Corporate Risk Register Report a standing agenda item. In addition, 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.
- 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 (soon to be four, subject to Board's approval of the appointment of a fourth) 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, as outlined in 2.4 above, 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.

In addition, the relevant Monthly Operating Report is provided to the Committee for consideration.

- 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, enabling the Finance Director to initiate this. 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 anti-fraud and corruption policy that was carried out as part of the wider consideration of the Annual Governance Statement; a report on the Operational Rail Recovery Plan which itself arose from a report on risks associated with Covid-19; and report on the TfN assurance framework. In addition, a review and refresh of the Treasury Management Strategy was undertaken.
- 3.9 The Committee's activity vis-à-vis its terms of reference is presented in matrix form in Appendix 6.2b.

#### **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 |
| Risk Management – risk register deep dive | √               |            |         |      |
| Contract Management                       |                 | √          |         |      |
| Recruitment and Selection                 | √               |            |         |      |
| Cyber Security Review                     |                 | √          |         |      |
| New Commissioning and Payment process     | √               |            |         |      |
| Investment Programme Assurance            | √               |            |         |      |
| Income & Debtor Management                | √               |            |         |      |

In addition, 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 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.

- 3.14 The Committee has tracked progress against agreed management actions throughout the year.

**External Audit Activity**

- 3.15 Mazars was appointed as TfN's statutory auditor in 2018 via the Public Sector Audit Appointment process and continued in this role during the year.
- 3.16 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.
- 3.17 The Committee has received progress reports from officers and Mazars throughout the year regarding progress in relation to the completion of the accounts and their subsequent audit and has reviewed the draft accounts three times through Finance Director Consultation Calls.
- 3.18 In accordance with TfN's Constitution, an important part of the Committee's remit is to recommend the Annual Accounts to the TfN Board. Unfortunately, due to quoracy issues (largely as a result of two previous Constituent Authority members losing their seats in the May elections), it was not possible to hold a quorate meeting on 16 September 2021 where this recommendation would formally have been agreed. However, the members in attendance at the Consultation Call held on the same day, who would have formed a quorum had it been possible to hold the meeting in person, were content that the accounts could be taken forward to the Board for approval.
- 3.19 Recognising the specific circumstances generated by the Covid-19 outbreak, the Committee notes that the process of finalising the Transport for the North accounts has been completed in line with the revised deadline of 30 September 2021 and that Transport for the North will use the 29 September 2021 Board to approve the 2020/21 financial statements in compliance with that deadline.
- 3.20 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**

- 3.21 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.
- 3.22 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.

- 3.23 In February 2021 the Committee approved revised format for the Corporate Risk Register Report. These changes were implemented after discussions with officers and will improve the utility of the report for the users, including the Committee and the Transport for the North Board as well as other stakeholders.

### **Next Steps**

- 3.24 The work programme for 2021/22 is intended to include the following:

- Consider the outputs produced by the Internal Audit plan for 2021/22.
- Continue to monitor the impacts of Covid-19 on TfN operations.
- Monitor Transport for the North's risk management activity.
- Review corporate governance arrangements, supported by an internal audit review, against the Code of Corporate Governance and the good governance framework
- Consider the preparatory activity being undertaken for the refresh of the Strategic Transport Plan.

- 3.25 The internal audit plan for 2021/22, approved by the Committee in February 2021, includes the following reviews of TfN activity:

- Governance Effectiveness Framework
- Risk Management Strategy
- Purchase to Pay
- Flexi-time system
- IT (Cyber security or GDPR)
- Follow up

## **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 members recommend to the Board the approval of the Statement of Accounts as contained in this pack.

## **5. Recommendation:**

- 5.1 The members of the Audit & Governance Committee have indicated that they are content for the Board to approve the corporate governance review and the Annual Governance Statement.

5.2 The members of the Audit & Governance Committee have indicated that they are content for the Board to note the recommendation in the Annual Progress Report of the Audit & Governance Committee to approve the Statement of Accounts for 2020/21.

5.3 The members of the Audit & Governance Committee have indicated that they are content for the Board to approve the Statement of Accounts for financial year 2020/21.

**6. Appendices:**

6.1 Appendix 1 - TfN Audit & Governance Committee terms of reference

6.2 Appendix 2 - Terms of Reference and Activity Matrix

**List of Background Documents:**

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

Transport for the North Constitution:

[Microsoft Word - Constitution Version July 2020 \(transportforthenorth.com\)](#)

Internal Audit Reports to the Audit & Governance Committee:

Risk Management – risk register deep dive

[Microsoft Word - Risk Management - Risk Register Deep Dive 1.20.21 REVISED FINAL TfN \(transportforthenorth.com\)](#)

Contract Management

[24.09.20-Audit-Governance-Pack.pdf \(transportforthenorth.com\)](#)

Recruitment and Selection

[Microsoft Word - Human Resources – Recruitment and Selection 4.20.21 FINAL TfN \(transportforthenorth.com\)](#)

Cyber Security Review

[Microsoft Word - Cyber Security Review 5.20.21 FINAL TfN \(transportforthenorth.com\)](#)

New Commissioning and Payment process

[Microsoft Word - New Payment \(Commissioning\) Process 6.20.21 FINAL TfN \(transportforthenorth.com\)](#)

Investment Programme Assurance

[Microsoft Word - Investment Programme Assurance Review 7.20.21 FINAL TfN \(transportforthenorth.com\)](#)

Income & Debtor Management

[Microsoft Word - Income and Debtor Management 8.20.21 FINAL TfN \(transportforthenorth.com\)](#)

Progress Report

[Microsoft Word - Progress Report February 2021 TFN \(transportforthenorth.com\)](#)

[Microsoft Word - Progress Report June 2021 TFN \(transportforthenorth.com\)](#)

[Microsoft Word - Progress Report July 2021 TFN \(transportforthenorth.com\)](#)