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| Meeting: | Transport for the North Board |
| Subject: | Appendix 2 - Audit and Governance Committee Annual Report to TfN Board |
| Author: | Graham Bell and Cllr Keith Little, Chair and Vice Chair of TfN Audit and Governance Committee |
| Sponsor: | Paul Kelly, Interim Finance Director |
| Meeting Date: | Thursday 29 September 2022 |

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.
- 1.3 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 six Members of the TfN Board and four Independent Members recruited on the basis of relevant skills.
- 2.3 In January 2022, after several years of service, the Chair advised of his intention to stand down. Until a replacement could be confirmed, the Vice Chair, Cllr Keith Little, agreed to act as an interim Chair. At the meeting of 14 July 2022, Graham Bell was confirmed as the new Chair of the Committee.
- 2.4 The Committee's terms of reference are appended to this report for reference at Appendix 3, but the Committee's principal purpose is to provide independent review and assurance to Members on governance, risk management and control frameworks.
- 2.5 During the 2021/22 financial year the Committee met five times, with a Chair appointed from its Independent Members. These meetings were a combination of remote and in person.
- 2.6 Given the environment of uncertainty within which TfN continues to operate, the Committee has placed a higher focus on risk management, with risk being a standing agenda item. In addition, the Committee has continued to focus on gaining assurance as to the existence and efficacy of underlying processes and controls.
- 2.7 This report notes the progress the Committee has made in discharging its functions and contains a recommendation with regards to approval of the statutory Statement of Accounts.

3. Audit and 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 At its meeting of 30 June 2022, TfN Board approved the increase of the number of Members of the Audit & Governance Committee from five to six, supported by four 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.

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- 3.3 Over the 2021/22 financial year the Committee met five times and once subsequently. Meetings have been attended by TfN's internal and external audit providers (RSM and Mazars respectively). At the request of the Committee an invitation to attend has been reconfirmed to DfT and they are anticipated to regularly attend.

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
- 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. No such reports were received in 2021/22.
- 3.6 In addition to this, the Committee also approved the internal audit programme of activity. 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 At the meeting of 10 June 2021, a representative of the Greater Manchester Pension Fund ("GMPF") briefed the committee on the key drivers underpinning the pension numbers and disclosure in the statutory accounts. This briefing, whilst focused on the content and drivers for the 2020/21 accounts, would be relevant for all subsequent years.
- 3.9 The Committee's activity vis-à-vis its terms of reference is presented in matrix form in Appendix 4.

Internal Audit Activity

- 3.10 RSM was originally appointed as TfN's internal audit provider in 2018 following a competitive procurement exercise and the service provision was extended for two years to cover the period from 2021-23.
- 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 |
| Governance Effectiveness | | ✓ | | |
| Risk Management | ✓ | | | |
| Purchase to pay | ✓ | | | |
| Flexitime process | ✓ | | | |
| Cyber Security Review | | | ✓ | |

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 (“PSAA”) process and continued in this role during the year. TfN is intending to continue its sourcing of external auditors through the PSAA arrangement. The PSAA are currently in the process of procuring a solution for the period from 2023/24 onwards.

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, and also gives a value-for-money opinion.

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 unaudited accounts at its meeting of 14 July 2022. At the A&G meeting of 21 September 2022, the Committee considered the findings of the external audit process when formulating their view on whether the Statement of Accounts should be submitted to the TfN Board for approval.

3.18 The Committee noted that the process of finalising the Transport for the North accounts will be completed within the revised deadline of 30 November 2022 and that Transport for the North will use the 29 September 2022 Board to approve the 2021/22 financial statements in advance of that deadline.

3.19 Mazars will only report their audit opinion when they have the pension fund assurance letter from the auditors of the pension fund. However, the Committee had sufficient comfort to recommend the accounts to Board for approval.

3.20 As part of their audit, Mazars are required to consider whether TfN has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, ie value for money.

Risk

- 3.21 One of the first exercises that the 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 regularly reviewed the Risk Strategy and its output and provided feedback with regard to the presentation of the information provided. The Committee has also requested the Risk Management Strategy places a specific focus on emerging risks and their effect on the risk register. The emerging risk environment is now a standing item reported within each update.
- 3.23 DfT issued the Integrated Rail Plan in November 2021. This included the transfer of the NPR programme to DfT for development and subsequent delivery. This transfer, in conjunction with the funding allocation confirmed in February 2022, required TfN to reconsider its operating model and reduce its cost base. This presented the opportunity to review and streamline the Risk Management Strategy ("RMS") and its outputs. The revised RMS was presented to the Committee in June 2022 in advance of its subsequent submission to the TfN Board.

Next Steps

- 3.24 The work programme for 2022/23 is intended to include the following:
- Consider the outputs produced by the Internal Audit plan.
 - 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.
 - Based on the level of change faced by the organisation in the past and the rapidly changing environment going forward, the Committee will track progress on delivery against the key budget assumptions.
 - The Committee have requested year on year improvements are considered and, where necessary, formally captured.
- 3.25 The internal audit plan for 2022/23, approved by the Committee in February 2022, includes the following reviews of TfN activity:
- 2021/22 Follow up
 - Risk maturity review
 - General Data Protection Regulation ("GDPR")
 - Payroll
 - Health and Safety Framework
 - Equality, Diversity and Inclusion framework

The payroll audit has been completed and will be presented for review at the September 2022 meeting.

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 commends to the Board the Statement of Accounts as contained in this pack.

5. Recommendations:

- 5.1 It is recommended that the Board approve the corporate governance review and the Annual Governance Statement.
- 5.2 It is recommended that the Board notes the recommendation in the Annual Progress Report of the Audit & Governance Committee to approve the Statement of Accounts for 2021/22.
- 5.3 It is recommended that the Board approve the Statement of Accounts for financial year 2021/22.

6. Corporate Considerations:

Financial Implications

- 6.1 The financial implications are detailed in the report

Resource Implications

- 6.2 There are no resource implications as a result of the report.

Legal Implications

- 6.3 There are no legal implications as a result of the report.

Risk Management and Key Issues

- 6.4 The risks associated with the audits are detailed in the report.

Environmental Implications

- 6.5 A full impact assessment has not been carried out because it is not required for this report.

Equality and Diversity

- 6.6 A full impact assessment has not been carried out because it is not required for this report.

Consultations

- 6.7 A consultation has not been carried out because it is not necessary for this report.

7. List of Background Papers:

- 7.1 Transport for the North Constitution (latest copy available on TfN website) Internal Audit Reports to the Audit & Governance Committee (copies available on TfN website):

- Governance Effectiveness Arrangements (16 September 2021)
- Risk Management Framework (16 September 2021)
- Purchase to pay framework (19 November 2021)
- Flexible working hours scheme (19 November 2021)
- Cyber security assessment (25 February 2022)

Progress reports were presented at each meeting

8. Appendices:

Appendix references are listed within the cover report.