

Audit & Governance Committee Minutes

Friday 06 September 2024

Friends Meeting House, 6 Mount Street, Manchester, M25 5NS

Present:

Attendee	Local Authority
Kevin Brady	Independent Member
Stuart Green	Independent Member
Richard Thomas	Independent Member

Invitees In Attendance:

Daniel Watson	Forvis Mazars (External Audit)
Alex Hire	RSM (Internal Audit)

Officers in Attendance:

Name	Job Title
Andrea Shepherd	Executive Assistant
Paul Kelly	Finance Director
Julie Openshaw	Head of Legal
Stephen Hipwell	Head of HR
Charlie French	Investment Planning Manager
Lisa Pitt	Management and Financial Accountant
Daniella Della-Cerra-Smith	Risk Manager

Item No:

Item

1 Welcome and Apologies

- 1.1 As no elected members were able to be present, the meeting was held as a consultation call of the Finance Director. Mr Brady attended his final meeting as an independent Member. The Chair thanked Mr Brady for his valued contribution to the Committee over the last 6 years. Mr Brady has been on the Committee from TfN's establishment as a statutory body in 2018 and he noted the changes and development that have taken place over the years. He extended his best wishes to TfN for the future. The Finance Director also gave thanks for the valuable input and challenge that Mr Brady had posed over the years. Mr Green, attending as an observer, was welcomed to the meeting and it was noted that he will commence his tenure as an Independent Member from the next meeting. It was noted that Ms Reed has tendered her resignation as an Independent Member with immediate effect and therefore a new vice chair will need to be sought.

2 Declarations of Interest

- 2.1 There were no declarations of interest.

3 Minutes from the Previous Meeting

- 3.1 In between this meeting and the last, the Chair had met with the Chief Executive, to establish a connection for governance purposes and enable inclusivity. Reflecting on the conversation with the Chief Executive, the Chair thought the Committee and the executive team should consider inclusivity and disconnectivity and how it impacts on the Committee's remit. He also emphasised the need to carefully consider how relevant are the topics of the work that the Committee is looking at to the work of TfN. The annual governance statement was discussed and there was an update of the internal and external audit.
- 3.2 It was to be noted that Mazars is now known as Forvis Mazars following a merger on 1 June 2024.

Resolved:

That the minutes of the Audit & Governance Committee held on 19 July 2024 be approved.

4 Corporate Risk Report and Deep Dive 916

- 4.1 The Finance Director explained that there is cyclical reporting to Board every 6 months. The Corporate Risk register was presented to the meeting in July, and it was noted that there needs to be a review of risks for TfN due to the change of Government. It had not been possible to provide this for this meeting due to the number of internal checks that will be required prior to presentation to the Operating Board. It will however be reported to this Committee in December.
- 4.2 Regarding the deep dive, it is not yet known what TfN will be submitting to the Department for Transport in relation to its funding request. There is a requirement for the Department to undertake a spending review but as this has yet to happen, and due the uncertainty, the deep dive has been postponed.
- 4.3 The Chief Executive had indicated that he reviewed how risk is managed at TfN in a positive way. The Chair noted that risk only has meaning within the context of the objectives of the organisation, and that he had asked the Chief Executive what either he or the Board could do to provide enhanced context to the Audit and Governance Committee.

Resolved:

That the review of risks will be provided at the December Committee meeting.

5 Quarterly Operating Report April - June 2024

- 5.1 The Investment Planning Manager from Strategic Rail presented the Quarterly Operating report, which had been produced prior to the general election, drawing out the process, the key highlights, and how it fits into the governance structure. The change of format of the report gives a greater focus on key milestones, including RAG ratings.
- 5.2 Mr Green observed that the report was transparent, and the RAG ratings were welcomed. Mr Green asked, in terms of resource limitation mentioned in the report, what resources does this relate to. The Finance Director answered that it relates to funding of the TfN Offer. The Offer has been very successful and there are significant benefits to other

organisations from their access to the TfN Offer. If the DfT requested TfN to do more within the Offer and in turn provide extra funding, then it would be welcomed by TfN.

- 5.3 Mr Thomas asked about the year-to-date figures; the variances compared of budget to actual look within tolerance apart from staff support, which is minus 53%, and he asked what those costs are. The Management and Financial Accountant explained that the staffing underspend reflects vacancies in the quarter and that there was a high spend on recruitment costs to fill some of those vacancies, in particular around the Rail and Roads Director post which was not successful.
- 5.4 Mr Thomas observed that he was pleased to read about the replacements of assets in terms of the rolling stock but wondered what the procurement process is and what level of risk does TfN take on board? The Investment Planning Manager from Strategic Rail said that the process for rolling stock procurement has changed significantly recently and is now in-house. The commercial deal often took place during the franchise letting process, and there is now more involvement from the Rail North Partnership (RNP) making a business case for the investment and specifying what type of rolling stock would be used.
- 5.5 The Finance Director stated that there is no risk to TfN in relation to train procurement. The Rail North Partnership team comprised of 21 staff, are based at the DfT office in Leeds, and they work closely with the DfT. The Finance Director will consider when and how the remit of the RNP team is best positioned and convey to the Committee.
- 5.6 Mr Brady commented about the process of producing the Quarterly Operating Report, and whether a cover report may be a positive idea to steer the Committee to areas of work that need focusing on, particularly as the report is often seen retrospectively.
- 5.7 The Finance Director replied that aligning reports with meetings can be a challenge and that new reports when published could be sent out to Committee members so that information is timely.
- 5.8 The Chair acknowledged that anything that can be done to improve the currency of the information received will be embraced. Informal documents can be circulated to Committee rather than only being in the formal agenda packs. He added that the RAG with the milestone reads as if we are focusing on whether something is likely to hit a date rather than whether it is under any other pressure. As a challenge, he questioned whether simply just because something may be on time, it might not be appropriate for it to be green if it is no longer relevant.
- 5.9 The Chair asked Ms Hire and the Risk Manager to consider whether there was anything from audit work or the risk that relates to the RNP, which could be presented to the committee.

Resolved:

That the Quarterly Operating Report will be sent out to the Audit & Governance Committee if it is ready in advance of the meeting.

6 Governance Statement Process

- 6.1 In terms of the membership of the Committee, the Head of Legal, highlighted that there are 6 seats for the elected members on the Committee; because there was no Board meeting in June, no further members could be appointed to the Committee. There are two elected members who are continuing from prior to the elections and there are 4 vacancies. With effect from the Board meeting which will take place on 16 September, there will be 4 further members expected to be appointed and to be on the Committee which will give more robustness in terms of quoracy. Mr Green will be taking over from Mr Brady as an Independent Member from the next meeting. The recruitment process for another independent member to cover for Ms Reed will be brought forward in due course. A new vice chair will need to be appointed, and discussions will need to take place to arrange this.
- 6.2 The Head of Legal presented the Annual Governance Statement Process and confirmed that a further update will be provided at this meeting in December 2024.
- 6.3 The Finance Director added that TfN's year end is 31 March and within 2 months a draft set of accounts that contain the AGS are produced. They will be subject to audit. The accounts will then be formally approved and signed off by Board. The AGS does not tend to change from the draft statement that is produced 2 months after the end of the year.
- 6.4 The Chair highlighted that regarding the AGS, which is part of the draft accounts, there are no changes expected between now and the next meeting.
- 6.5 Mr Thomas thanked the Legal team for their work on the AGS. Rather than it being an end of year tick process, this is a more intuitive and valuable document. The continuous review helps to identify potentially areas of the policy that some people do not understand or may disregard, and it helps also to inform audit plans.
- 6.6 The Finance Director responded to say that it is exactly why it is done this way i.e. in order to bring the document to life. The Senior Lawyer has done good work in ensuring that the change has been made in this way.

Resolved:

Following on from the Board meeting there will be 4 further members appointed to the Committee.

7 Skills Audit/Competency Framework

- 7.1 The Head of HR presented the report including the skills audit tool which is connected to the Annual Governance Statement process. Once agreed today it will be sent out to Committee Members.
- 7.2 Mr Brady asked whether there could be somewhere in Section 3 to reflect people who have significant or other non-executive director and/or independent member experience or any other significant Board experience. The Head of HR agreed to make a change to reflect the request. The survey will be circulated after the Board meeting on 16

September. It will be completed by members by the end of October and will be reported back to this meeting in December.

- 7.3 The Chair indicated that there is a challenge of not being over focused on merely filling gaps; there is a need to ensure that we focus on people's strengths and prioritise training correctly, depending on the results. There needs to be a balance between training and membership

Resolved:

- 1) It was agreed that suggested changes will be made to the skills audit.
- 2) The survey will be completed by Committee members by end of October.

8 Internal Audit Update

- 8.1 Ms Hire went through the Progress Report including dates for future audits. Mr Thomas noted that 21 of the 23 actions were complete and asked which two of the actions have not been completed and how significant are they. Ms Hire reported that one of the outstanding actions was the IT Management Access Security Audit; progress had been made and a revised action date of 31 December had been noted around 3rd party register. The second outstanding action was the Procurement Value for money review and a date of 31 December had been agreed for follow up. Both actions will be followed up to ensure that they have been embedded.
- 8.2 Ms Hire went through the key points of the Performance Management and Appraisal report and noted that there were no actions included. Mr Thomas noted that even though there were some flagged points, there were no agreed actions. Ms Hire replied that benchmarking had been carried out against other organisations and from the sample testing in terms of the appraisals, inductions and policies and procedures, everything had followed the correct process and there were no issues with compliance. Therefore, no actions were required.
- 8.3 The Head of HR noted that the suggestion in terms of the documentation of calibration has been fully implemented and now a formal record of audit of calibration does take place. In terms of the other blue flagged points, reporting by exception does take place i.e. if there are any issues regarding skills gaps and it was confirmed that the recommendation of reporting through to SMT has also been implemented.
- 8.4 Mr Brady reported that he would expect medium and large sized organisations should ordinarily report findings from the audit and appraisal process to its management and potentially its Board.
- 8.5 The Head of HR replied that if anyone is going through a formal process procedure that would be reported to the Operating Board. In terms of non-compliance of appraisals, there has been 0% non-compliance since it has been introduced. Going forward, the 100% compliance with the annual appraisal process will be added to the report retrospectively. The Finance Director gave assurance that an HR update was submitted to the Operating Board / Executive at each meeting.
- 8.6 Ms Hire presented the Global Internal Audit Standards, which will be introduced in January 2025 and links well with the skills audit.

- 8.7 The Chair shared that one of the questions raised by the Chief Executive was whether the Chair was satisfied that audit was suitably independent of management. He noted that there was a significant emphasis on the standards on demonstrating independence and how the Committee gains assurance that the environment in which Internal Audit are operating is suitable and appropriate. This is a challenge for the Committee to consider as it moves forward in relation to individual reviews, management responses and annual planning. The Committee also needs to consider how good practice in other internal audit bodies could be considered by this Committee.
- 8.8 Ms Hire commented that looking back over the internal audit journey, particularly around the audit plan compared to a few years ago, the areas have begun to evolve in terms of risk and other key areas such as TfN offer. The engagement of Committee members has increased, looking at things through a different lens, and with skill sets of members bringing in different elements. The Charter will form part of the audit plan setting out roles and responsibilities and the effectiveness of the committee.
- 8.9 The Chair asked whether a specific question could be posed as part of the annual governance statement around how good governance can be demonstrated and around how audit standards are captured.
- 8.10 The Finance Director highlighted that we are about to embark on business planning for next year and TfN will engage with the auditors aiming to influence the scope for next year, teasing out some of the areas that we will want to look at such as a more structured control base and delivery against long term objectives. An update will be provided at the next meeting.
- 8.11 The Chair commented that sometimes we can assume that something is independent because it is based outside the organisation but there is still a need to undertake testing.
- 8.12 The Finance Director reiterated the point that if any member of the committee would like to meet with either of the auditors privately that would be fully supported.

Resolved:

- 1) The two outstanding actions will be completed by end December 2024.
- 2) Compliance with the annual appraisal process will be added to the Operating Board report in future.
- 3) Global Internal Audit Standards will be introduced in January 2025.

9 External Audit Update

- 9.1 Mr Watson gave a brief update. There are some changes due in terms of the timeframes on external audit moving forward which is a reflection on the backlog in the wider local audit sector. Traditionally the accounts would be produced by end of May, and they would be audited by end of September, since the Covid pandemic. The new Minister of State has set out the principle of how the backlog can be addressed. For the next 5 years there will be a series of deadlines for completing the external audit, and if the deadline is reached and the accounts are not finished,

the auditors will be required to issue a modified audit of opinion on the accounts. The production of the draft accounts will also change; it will be a later deadline i.e. the end of June. These expected deadlines are still to be approved by Parliament.

- 9.2 TfN's audit completion report and final set of accounts will be presented to the December meeting. The findings of the value arrangements will also be presented to the next meeting.
- 9.3 The Chair asked whether the point that needed to be addressed in relation to pensions, which was a delaying factor last year, would re-emerge. Mr Watson said the process in terms of pension fund started in July and it is already almost complete, so there should be no delays.

Resolved:

That the updated external audit timeframes will be adopted once approved.

10 Date and Time of Next Meeting

Friday 6th December 11:00 – 13:00 at The Friends Meeting House, [6 Mount Street, Manchester M2 5NS](#)