

Audit and Governance Committee - Minutes

Meeting: Audit and Governance Committee
Date: 19 December 2018

Attendees:

Kevin Brady	Independent Member
Chris Melling	Independent Member
Councillor Chris Brewis	Lincolnshire County Council
Councillor Keith Little	Cumbria County Council
Councillor Liam Robinson	Liverpool City Region
Councillor Mark Winnington	Staffordshire County Council

Invitees:

Karen Murray	External Audit, Mazars
Chris Whittingham	External Audit, Mazars
Lisa Randall	Internal Audit, RSM UK
Jordan Fenney	Internal Audit, RSM UK

Transport for the North Officers:

Iain Craven	Finance Director
Gareth Sutton	Financial Controller
Haddy Njie	Risk Manager
Deborah Dimock	Legal Officer
Mark Hardman	Democratic Services Officer

Apologies:

David Pevalin	Independent Member
Councillor Simon Blackburn	Blackpool Council
Louise Maqsood	Observer, Department for Transport

1.0 Welcome and Apologies

- 1.1 Members of the Committee were welcomed to the meeting by the Finance Director and all in attendance introduced themselves.
- 1.2 Apologies for absence were noted.

2.0 Declarations of Interest

- 2.1 There were no declarations of interest.

3.0 Appointment of Chair and Vice Chair

RESOLVED: That (1) Chris Melling be appointed Chair of the Audit and Governance Committee for the remainder of the Municipal Year;
(2) Councillor Keith Little be appointed Vice-Chair of the Audit and Governance Committee for the remainder of the Municipal Year.

4.0 2019/20 Business Planning Update

- 4.1 The Committee received a report from the Finance Director. This advised that the annual Business Plan which sets out Transport for the North's objectives for the coming year and how they will be delivered, is to be presented for approval to the Transport for the North Board on 7 February 2019. The Business Plan will also form the basis for the Transport for the North budget to be submitted to the same meeting. The business planning process had been considered by the Scrutiny Committee and by the Partnership Board and was now presented to this Committee for consideration.
- 4.2 The Transport for the North Board and Partnership Board provides regular direction for all of Transport for the North's main programmes. The Board has made decisions across the range of programmes that drive the activity that needs to be delivered in 2019/20, particularly the adoption of the Strategic Transport Plan and development of the associated Investment Programme, ongoing delivery of the Integrated Smart Ticketing programme, and the further development of the Northern Powerhouse Rail Programme. In addition, there is an ongoing requirement for Transport for the North to hold the rail industry to account both in relation to operational performance, and the delivery of franchise commitments.
- 4.3 The Finance Director delivered a presentation in support of the report. The 'golden thread' for 2019/20 was introduced as a means of ensuring that all work undertaken is consistent with Transport for the North's objectives and that there is proper alignment of expenditure. The planning process requires Integrated Plans for all areas of operation, and includes categories covering Objectives; Plan; Deliverables; Resources and Costs; Benefits and Key Performance Indicators; and Risks and Challenges. Following a consideration by Members as to whether there should be named responsible Officers for each Plan area in the final published version, it was agreed that a job title should be assigned to each area/Integrated Plan to assign responsibility.
- 4.4 The timeline leading to approval of the Business Plan was considered. Business plan and the budget reports will be discussed at the Scrutiny Committee (24 January) and Executive Board (28 January) prior to approval by the Board on 7 February 2019.

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- 4.5 The Committee's attention was drawn to the fact that Transport for the North has limited revenue raising powers and is unable to borrow, with most of its resources being allocated by the Department for Transport (DfT). Transport for the North's funding for 2019/20 was summarised, comprising principally of 'core' funding and funding ringfenced for specific programmes. While Transport for the North has flexibility around deployment of core funding, this does not extend to the specific grants/funding allocations. The Committee was advised that the DfT is being pressed to allow flexibility around expenditure of specific funding. In response to a query as to whether the lack of flexibility was restricting the ability to deliver, the Finance Director advised that this had not been the case to date, but that it did create administrative issues and had the potential to have greater impact in the future.
- 4.6 It was confirmed that all monies identified for committed activity in 2019/20 were guaranteed and available if called upon. In response to a query, it was confirmed that no clarity as to the Spending Review had been received to date, with an 'early summer/post Brexit' time period being the most likely.
- 4.7 The Committee was advised that the majority of Transport for the North's activity was in progress as a result of decisions already made or which would be made prior to the new financial year. The presentation addressed the emerging headline Transport for the North objectives for 2019/20, together with a number of secondary/supporting objectives. Specific issues raised were:
- a) Northern Powerhouse Rail – while there had been a slight delay in approval of the Strategic Outline Business Case, this was not considered to impact on the timeline for the project overall and the next stage of preparation was progressing;
 - b) Strategic Rail – A Member noted the 'co-management' of the franchises, querying what this meant in reality and posing the question as to where responsibility actually rested. The Finance Director indicated that this would be a consideration for the ongoing reviews of the rail industry and noted the well published frustrations of TfN Board members in relation to this. The Chair suggested that the means and sanctions to address franchise issues needed to be specified.
 - c) Integrated Smart Ticketing (IST) – a member expressed a concern that other regions, including the West Midlands, were progressing their own schemes and Transport for the North might be spending money on a scheme duplicating developments elsewhere. The Finance Director noted that the IST team were working closely with the DfT and liaising with other transport bodies to avoid this. The Finance Director noted that whilst the ability to collect cash on a card was relatively straightforward, the Integrated & Smart Travel programme will allow passengers to benefit from a 'fair-price promise' to ensure they are getting the best value travel – this is a much more difficult technical challenge given the diversity of the regions public transport. A Member, while noting consensus on the current rail rollout, expressed a concern about the bus network and

cautioned that a legislative change might be needed to ensure participation. The Finance Director confirmed that Transport for the North could not enforce participation but could only progress the scheme fully if it met everyone's objectives. The Chair noted that Transport for the North should not be looking to re-invent the wheel on IST but should seek to achieve value for money wherever possible, and that the identified issues of moving into the wider market should be noted and appreciated.

- d) With regard to Transport Strategy – a Member raised the work that was being progressed by the Constituent Authorities at a local level and the need to ensure consistency between local and regional plans. The Finance Director noted the requirement and undertook to raise the issue with the Transport for the North Strategy Team.
- e) Spending Review – a member sought confirmation that Transport for the North was lobbying Ministers, the DfT etc with regard to the Review, as opposed to relying solely on written submissions. The Finance Director confirmed that the organisation was mindful of such issues and has an Engagement Plan. A Member asked whether the Officer Reference Group could look at the issue and the Finance Director undertook to progress the issue of engagement with the Communications Team.

RESOLVED: That (1) 2019/20 Business Planning process be noted;
(2) the Committee considers that the final published Business Plan should have a Transport for the North's Officer designation attached to each area/Integrated Plan to assign responsibility;
(3) the issues around wording and presentation of issues around franchise management be noted, the Committee considering that the means and sanctions to address franchise issues needs to be specified in the Business Plan;
(4) the Committee considers that Transport for the North should seek to achieve value for money on the Integrated Smart Ticketing programme, and that issues highlighting the difficulties of moving into the wider market be noted and appreciated;
(5) issues to be pursued by the Finance Director in respect of Strategy and engagement with localities be noted.

5.0 Review of the Constitution

- 5.1 The Legal Officer presented a report from the Head of Legal providing an update on progress in the review of the Transport for the North Constitution that had been required by the Transport for the North Board when adopting the Constitution at its inaugural meeting. The report advised of the review process undertaken, presented submissions received in response to a questionnaire, and put forward proposals for amendment. It was further noted that the Review would need to take account of the Blake/Jones Review into the Rail North Partnership Board

to feed into the Review before final recommendations for Constitutional change could be made.

- 5.2 Further to the submitted report, the attention of Members was drawn to a number of particular issues:-
- a) While telephone attendance at meetings of the Transport for the North Board and Committees was not permitted by law, certain Officer decisions to be taken in consultation with Board Members could be taken in this manner, or by email confirmation. It was proposed to formalise this arrangement in the Constitution;
 - b) With regard to public speaking at meetings, it was proposed that this be not permitted at the Transport for the North Board. As an alternative, should requests to address the Board be received, the Chief Executive would make arrangements for a delegation of Members to meet the member of the public at some other time. It had been considered that the Scrutiny Committee, as a consultative body, was the most appropriate meeting for public speaking;
 - c) Regarding membership of this Committee, it was not intended to progress a proposal to extend membership beyond the Board following the decision of the Board at the meeting held on 6 December 2018 to extend the membership and appoint further Board Members. The Chair thanked Officers for progressing a resolution to quoracy issues and those Board Members who had volunteered to be members of the Committee.
 - d) It was intended to clarify the privacy of Partnership Board meetings by stressing that these were not meetings convened under local authority laws but operated as private space for Members and partners to discuss issues.
- 5.3 A Member noted that the questionnaire had included the issue of Officer Reference Groups (ORGs). It was considered that these were important meetings to ensure that all areas were involved in issues and, for efficiency, meant that specialist Officers employed by individual constituent authorities could work for the benefit of all. The Legal Officer advised that the issue raised had reflected on whether the terms of reference for the ORGs should be included in the Constitution or be agreed by the Executive Board. On consideration, it was proposed that these be agreed by the Executive Board given the delays inherent in amending the Constitution. It was asked that the final report on the Constitution Review to be submitted to the Board include confirmation of this arrangement.

RESOLVED: That (1) the report, including the responses received to the questionnaire and the proposed amendments to the Constitution, be noted;
(2) the final report on the Constitution Review to be submitted to the Board include confirmation of the arrangement whereby the terms of reference for Officer Reference Groups will be agreed by the Executive Board.

6.0 Corporate Risk Update

- 6.1 The Risk Manager introduced a presentation, updating the Committee on matters related to corporate risk. The Committee was reminded that it was essential that Transport for the North recognise, understand and manage the range of risks that could negatively impact on its ability to achieve the objectives in the Business Plan and Draft Strategic Transport Plan. Transport for the North's approach to managing risk was set out in its Risk Management Strategy which provided guidance for how risks are identified, assessed, managed and reported. Each programme and corporate function within the organisation had its own risk register that is updated on either a monthly or fortnightly cycle, with corporate level risks being reported to the Transport for the North Board every six months.
- 6.2 Transport for the North uses programme information to identify cross cutting risk themes of sufficient significance to be reported to and discussed by the Board as risks requiring corporate focus. Corporate risks stem from a range of sources, some of which are beyond the organisation's direct control. The challenges and uncertainty faced created both threats that need to be addressed, and opportunities that could potentially be exploited.
- 6.3 The presentation considered Transport for the North's corporate level risks and the senior owners within the organisation; outlined the defined Probability Impact Criteria to undertake the qualitative assessment of the risks in order to produce a risk exposure score for each risk; provided a detailed analysis of each risk and mitigating actions that have been adopted; and gave additional information with regard to the assessment of post mitigation risk.
- 6.4 The Committee gave a specific consideration to the qualitative assessment of post-mitigation risks and levels of controllability. An assessment had been given as to the extent to which Transport for the North was able to influence or control risk outcomes by identifying -
- Controllable mitigations – where Transport for the North had the power/ability to implement mitigation strategies;
 - Dependency mitigations/controllable – where a collaborative effort with partners or stakeholder was needed in order to successfully manage action plans. It was also possible that Transport for the North could deploy additional resources to increase its ability to influence outcomes;
 - Dependency mitigations/limited control - where mitigations must be collaborative and require a buy-in. While Transport for the North could seek to influence factors impacting on these risks, it had a low level of control over if or how these mitigations were implemented.
- The guidelines shown in the presentation were to assist the Committee in seeing that Transport for the North had a robust system in place.
- 6.5 The Chair noted that the approach adopted allowed Members to be aware of areas of particular risk and the extent of TfN's ability to control these risks. With regard to government policy changes and

engagement, he noted that it was important to engage widely with both those in government and with people who may be in government at some later time.

- 6.6 The Committee gave consideration to a qualitative assessment of the following suite of identified risks –
- Political/Organisational;
 - Compelling Arguments for Investments;
 - Transport for the North’s Operations;
 - Delivery of Integrated Smart Travel (IST);
 - Delivery of Northern Powerhouse Rail Strategic Outline Business Case;
 - Transport for the North and Franchise Commitments.
- 6.7 A Member asked for an opportunity for the Committee to get behind this process and to ask questions about mitigation control measures in order to assess their robustness: it was suggested that the first mitigation strategy/action plan in respect of the Delivery of the IST risk (relating to close and joint working/fostering successful relationships), where the mitigation control level was determined as ‘low/medium’, be considered to seek Committee assurance on mitigations. The external auditor advised that the Committee needed to look at the source of the assurance that is being provided relating to specific links particularly where Transport for the North was wholly reliant on internal mitigations. The Finance Director suggested that the Committee should receive a presentation from the relevant Officers to get increased knowledge and assurance, rather than just receive a written report.

RESOLVED: That (1) the presentation providing an update on corporate risk matters be noted;
(2) the approach to the qualitative assessment of post-mitigation risks and levels of controllability be noted;
(3) the Finance Director and the Risk Manager consider, as part of the agenda setting process, the presentation of information enabling Members of the Committee to do further assurance work around qualitative mitigation control measures.

7.0 Internal Audit – Progress Report

- 7.1 The Committee received a report from RSM UK, Transport for the North’s Internal Auditors, presenting an update of work being undertaken in pursuance of the Internal Audit Plan for 2018/19. RSM thanked all the TfN staff involved for the co-operation they had received in conducting the audit. Two audit assignments had been completed and advised as follows:
- 1) Risk Management Framework – a “Substantial Assurance” opinion has been issued in respect of this assignment, indicating that TfN has an appropriately designed risk management control

framework, which is operating adequately. One medium and four low level management actions were identified.

- 2) Payment Authorisation Processes, Expenses and Use of Procurement Cards - a "Substantial Assurance" opinion has been issued in respect of this assignment, indicating the systems and controls in place are adequate for TfN to place reliance upon them. Two low level management actions were identified.

Detailed audit reports in respect of each assignment were submitted for the consideration of the Committee.

- 7.2 Further to the Risk Management Framework report, and in response to a query from a Member, Lisa Randall confirmed that all actions were agreed by Transport for the North management. Recommendations had been determined by the auditor, and a final form of words agreed with Officers to ensure applicability to the organisation. Members noted that this Committee should have some sight of the outcomes from the agreed recommendations/action plans, the Chair confirming such views.

- 7.3 Going forward, assignments in relation to the procurement framework, IT and payroll were in the planning phase, while the timing for work related to HR and Business Planning remained to be confirmed by Transport for the North. It was confirmed that there had been ongoing on-site liaison with the Finance team, and a liaison meeting had been held with the external auditors, Mazars. The report included a briefing on capital allowances and an Employment Update briefing was circulated.

RESOLVED: That (1) the report be noted;
(2) the detailed audit reports in respect of the Risk Management Framework and the Payment Authorisation Processes, Expenses and Use of Procurement Cards assignments be noted;
(3) this Committee have sight of the outcomes arising from the agreed recommendations/action plans contained within assignment audit reports.

8.0 Financial Year-End Readiness Update

- 8.1 The Financial Controller presented a report advising that, in line with other public bodies, Transport for the North would be required to produce a statutory Statement of Accounts at the end of the financial year. These accounts, to be prepared in line with CIPFA's Code of Practice, would include the core financial statements and the notes to the accounts, the Annual Governance Statement, and a narrative Explanatory Foreword.
- 8.2 The Committee was updated on preparedness for the financial year-end, and the measures being taken to ensure that Transport for the North is prepared and resourced to discharge those obligations within the timeframe specified. These measures included the procuring of year-end

support for which a specification was appended to the submitted report. Once prepared, the Statement of Accounts will be audited by Mazars, Transport for the North's external auditors, and presented to this Committee for consideration.

- 8.3 In response to queries for confirmation of the approach adopted to source external assistance, it was confirmed that a number of constituent authorities had been approached for possible assistance and that a one-year contract had been sought on this occasion. The position would be reviewed to consider efficiency of the approach adopted, but it was likely the arrangement might become permanent. Transport for the North had a small Finance Team and it was accepted that there would be spikes in workloads for which it was not possible to usefully engage a permanent employee. If the organisation expanded, this position might change.
- 8.4 A Member raised the issue of the treatment of Transport for the North's opening balances as considered within the submitted report, querying where Transport for the North's activities from the previous 'shadow' period would be reflected if a 'clean start' approach was being adopted. The Financial Controller advised that this would be represented in the accounts of former host organisations or responsible bodies. The external auditor noted that there would be no comparative information as the previous arrangements did not apply for the purposes of Transport for the North's accounts.
- 8.5 The Chair noted the small size of the Finance Team, that it was necessary at this time to get external support for peaks, praised the planning and assurance on this matter, and noted that small teams could not do everything. For the future, if the scale of the organisation increased there would be an expectation the Team would become expert in this field. The approach adopted was appropriate at the current time.

RESOLVED: That (1) the work underway to ensure Transport for the North's readiness for financial year-end and for the production of the statutory Statement of Accounts be noted;
(2) the approach adopted to procure external support to enable access to expert technical advice and capacity over the year end period be noted and the position be kept under review.

9.0 External Audit – Progress Report

- 9.1 The Committee received a report from Mazars providing an update on progress in respect of the delivery of their responsibilities as Transport for the North's external auditor.
- 9.2 The report presented the key stages in the audit running from the commencement of planning in November 2018 through to audit completion in July 2019 and it was confirmed that delivery of the audit

was on track. Meetings had been held with Transport for the North Finance Officers to discuss the audit, emerging issues and timescales, and liaison would continue throughout the year. An early resolution to the issue of opening balances, as referenced in a previous agenda item, would be sought. A schedule of working papers required for the audit had been provided to Finance Officers, and it was confirmed that a liaison meeting had been held with the internal auditors, RSM. A number of national publications and key points contained therein were highlighted to the Committee.

- 9.3 Referring to the audit timetable, the Chair noted the early testing of controls and transaction planned for the 'interim' period. The external auditor confirmed that this would allow the identification of issues at the earliest possibility: should significant issues be identified these would be alerted to the Committee.
- 9.4 The Committee was advised of a governance risk assessment to be undertaken considering financial planning and resilience, governance arrangements for the making of decisions, and how the organisation worked with third parties. The Audit Plan would be presented to the next meeting of the Committee, identifying risks in the accounts that would be addressed in the final accounts report in July 2019.
- 9.5 The Committee was reminded that, as a public body, Transport for the North's accounts would be available for public inspection and challenge. In the event of a challenge to the accounts being raised, the external auditors would work with the Committee to go through the issues raised.

RESOLVED: That the report be noted.