

# Audit and Governance Committee - Minutes

**Meeting:** Audit and Governance Committee  
**Date:** 01 March 2019

## Attendees:

Cllr Keith Little – VC, In the Chair  
Cllr Chris Brewis  
Chris Melling

Cumbria County Council  
Lincolnshire County Council  
Independent Member

## Invitees:

Louise Maqsood  
Chris Whittingham  
Lisa Randall

Observer, Department for Transport  
External Audit, Mazars  
Internal Audit, RSM UK

## Transport for the North Officers:

Iain Craven  
Gareth Sutton  
Haddy Njie  
Deborah Dimock  
Kevin Willans  
Oyetona Raheem

Finance Director  
Financial Controller  
Risk Manager  
Legal Officer  
Head of IT & Information  
Democratic Services Officer (DSO)

## Apologies:

Cllr Simon Blackburn  
Cllr Liam Robinson  
Cllr Mark Winnington  
David Pevalin  
Kevin Brady

Blackpool Council  
Liverpool City Region  
Staffordshire County Council  
Independent Member  
Independent Member

## 1.0 Welcome and Apologies

### 1.1 Apologies

Chris Melling (Committee Chair) had sent apologies to arrive late and the day's meeting was chaired by Keith Little (Vice-Chair).

Other apologies for absence were duly noted.

### 1.2 Quorum

With only two Board members present at the start of the meeting, the Committee was not quorate as the TfN Constitution requires a minimum of four Board members for quorum.

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However, the Legal Officer advised that the Committee could be held in accordance with the legal minimum for quorum under the Local Government Act 1972 which was one quarter of the Members present ( $\frac{1}{4}$  of 8) which was two Members for the Audit and Governance Committee. Under Procedure Rule 25.2.1 there was a provision for any procedure rule to be suspended on a motion passed by the Members present.

The motion was therefore moved to suspend the constitution minimum quorum of four members and to adopt the legal minimum quorum of two members for the day's meeting.

**RESOLVED:** To adopt the legal minimum quorum of one quarter of the Committee Members for the Audit and Governance Committee of 1 March 2019 in accordance with the provisions of the Local Government Act 1972.

## **2.0 Declarations of Interest**

- 2.1 There were no declarations of interest.

## **3.0 Minutes from the Previous Committee**

- 3.1 The minutes of the Committee held on 19 December 2018 were considered.

**RESOLVED:** To approve the minutes of the Audit and Governance Committee held on 19 December 2018 as a correct record.

## **4.0 Actions Log from the Previous Meeting**

- 4.1 Iain Craven (IC) talked the meeting through the actions log. The Committee agreed that the completed actions should be removed from the list while the outstanding actions should be carried forward to subsequent meetings until they were complete.

**RESOLVED:** To note the progress on outstanding actions.

## **5.0 Year End Readiness**

- 5.1 Gareth Sutton gave a verbal update on the preparations for the Year-End Statutory Accounts which TfN will be submitting for the first time this year. Additional resources to support the year-end process have been procured, as agreed at the last Committee. The Finance team had been in liaison with the External Auditors on the required audit work. The audited financial statements will be presented to the Committee for review in advance of the TfN Board approval on 31 July.

- 5.2 Chris Whittingham (CW) confirmed that Mazars had been working with the Finance team on the end of year accounts preparations. CW

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indicated that they expected a timely end-of-year close which would allow External Auditors to complete the audit before the deadline.

**RESOLVED:** To note the progress made in respect of Year-End Statutory Accounts.

## **6.0 Internal Audit Report – Progress report for March 2019**

- 6.1 The two internal audit reports circulated for the meeting were duly noted.

Lisa Randall talked the meeting through a summary update on progress against the approved Internal Audit Plan and summary of work completed since the last Committee, as well as details of work not yet due.

- 6.2 The Committee noted the Green rating in the draft report for Procurement Framework with three 'low' and one 'medium' management actions. There was an Amber rating for Cyber Security Controls with six 'low' and four 'medium' priority management actions agreed.

The Committee asked for a progress update in relation to the implementation of the audit recommendations on IT Audit. Kevin Willans confirmed that action plans have been agreed and that majority of the recommendations have been implemented.

Iain Craven advised that a consolidated implementation log was being compiled which will form part of progress report to the next Committee.

- 6.3 Lisa Randall drew attention to the request for a deferral of aspects of the audit plan until the next financial year. The Committee noted that review of TfN's HR policies will take place in the 2019/20 financial year.

**RESOLVED:** To note the report and the planned changes to the Internal Audit work plan as detailed therein.

## **7.0 External Audit – Audit Strategy Memorandum**

- 7.1 Chris Whittingham talked the meeting through aspects of the report and highlighted some of the salient points including:

- Engagement and Responsibilities summary
- Audit Scope, Approach and Timeline
- Materiality and Misstatements
- Significant Risks and Key Judgement Area
- Value for Money
- Fees for Audit and Other Services

- 7.2 Chris Whittingham summarised the Code of Practice for Auditors issued by the National Audit Office and the three main elements of the duties

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that Auditors were required to discharge. He also summarised how audit risks had been classified (significant, enhanced and standard).

The materiality threshold for expenditure had been set at 1.5% of the benchmark based on the latest forecast of 2018/19 expenditure.

In answer to a question on dealing with intangible assets, Chris Whittingham explained that this was related to the development of software programmes for the Integrated and Smart Travel (IST) project over a number of years. The valuation of the intangible assets will require application of assumptions and estimates. TfN will need to ensure that the intangible assets were accounted for in accordance with the CIPFA Code of Practice and IAS 38 Intangible Assets. There was a risk that assumptions and estimates were not appropriate nor in line with accounting standards.

Chris Whittingham also explained the Value for Money framework by the National Audit Office. Initial risk assessment had been done. Meetings have been held with officers and key documents reviewed to ensure there was confidence that adequate governance and accountability arrangements were in place for the IST project.

- 7.3 A question had been received from Kevin Brady who could not attend the meeting, in relation to monitoring of underspent on the IST project. Iain Craven explained how the budget had included a contingency amount and that the contingency amount was the underspent.

Gareth Sutton said that in addition, the budget anticipated a significant spend in the first quarter but due to delayed business case approvals, programme expenditure had been lower than expected.

**RESOLVED:** That the report be noted.

## **8.0 Review of Constitution – Voting Rights for LEP Co-opted Members**

- 8.1 The Legal Officer talked the Committee through aspects of her report which was brought to the Committee at the request of TfN Board following a question raised at the last TfN Board on granting of voting rights to LEP Co-opted members. The issue had not been picked up in the questionnaire that was circulated for the constitution review.
- 8.2 TfN constitution had been drafted based on the relevant legislation which carefully sets out voting rights. The legislation provides for Co-option of members on a non-voting basis, but the Board has powers to waive that provision as it had done in respect of Rail North in relation to rail matters.
- 8.3 During Committee deliberation, it was noted that there was no limit to the number of co-opted members that could be brought to the Board. How voting rights for Co-opted LEP members would be defined if

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granted was also unclear. Constituent Authority voting rights were defined by the population.

- 8.4 The Chair commented on the positive working relationship he had with LEP members whom he described as equal partners in TfN.

The meeting noted that Councillors serving on the TfN Board were representing their LEPs as well.

**RESOLVED:** That the Committee considered the report and expressed that this was a matter for the TfN Board and should be considered as part of the full Constitution Review.

## 9.0 Accounting Policies

- 9.1 Gareth Sutton talked the Committee through the accounting policies which have been adopted by Transport for the North in line with the practice at similar governmental bodies. He explained that the policies were largely driven by the CIPFA Code of Practice on Local Authority Accounting (the Code) and were in turn selected and drafted in accordance with the requirements of International Financial Reporting Standards (IFRS).

- 9.2 Gareth Sutton gave further clarifications to the question on dealing with intangible assets in the Balance Sheet. It will cover majority of capital expenditure around the IST programme in Phase 2 and Phase 3.

External advice from PwC had been commissioned which supported the proposal to hold the capital investment in the projects as an intangible asset. Future target operating models will determine whether the intangibles developed have a definable useful asset life, or whether they have an indeterminate life. For the coming financial year, intangible assets will be recorded as 'under construction'.

- 9.3 The chair asked for a response to the second question from Kevin Brady which was on how TfN planned to deal with depreciation in the books.

Gareth Sutton drew attention to Policy 17 in the Appendix 1 attached to his report and his comments which explained how depreciation on assets were to be treated in the books. As TfN was not an operational organisation, it had little in the way of assets and was unlikely to acquire PPE in any material way into the future. A capitalisation threshold of £10k had been adopted for individual items of expenditure. That would likely catch the majority of incidental equipment purchases made through TfN's ICT refresh strategies and its approach to managing the accommodation space.

**RESOLVED:** To note the accounting policies.

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**10.0 Future Meeting Dates**

The following meeting dates were agreed:

Thursday, 13 June 2019 from 11am – 1pm – Sheffield

Wednesday, 10 July 2019 from 11am – 1pm – Leeds

***Chris Melling joined the meeting at 12.05***

**11.0 Exclusion of Press and Public**

**RESOLVED:** That the public be excluded from the meeting during consideration of the following items of business because it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, there will be disclosure of confidential information as defined in s100A(2) of the Local Government Act 1972 (as amended) and exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

**12.0 Corporate Risk Update**

- 12.1 Haddy Njie made a presentation to the Committee on Programmes and Associated Key Risks. During the presentation, HN outlined and summarised the remit of TfN's four transformational programmes; the progress of each programme; and the key risks relating to each programme and the planned mitigation strategies in place.
- 12.2 Detailed discussions were held about the under-performance of Train Operating Companies and steps being taken by TfN Board in this regard.
- 12.3 Iain Craven provided an update report on the IST project. Detailed discussions were held on the risks associated with the IST programme and the Committee noted the steps being taken by management to mitigate those risks. Further updates to be provided at the next Committee.

**RESOLVED:** To note the presentation from the Risk Manager.