

**Transport for the North  
Audit & Governance – Minutes**

**Meeting:** Transport for the North Audit and Governance Committee  
**Date:** Friday 28 February 2020, 11:00am - 2:00pm  
**Venue:** Meeting Room 9, 1<sup>st</sup> Floor, Manchester Meeting Place, Sackville Street Campus, University of Manchester, M1 3BN

**Attendees:**

Chris Melling, CM (Chair)	Independent Member
Cllr Keith Little, KL (Vice-Chair)	Cumbria County Council
David Pevalin, DP	Independent Member
Kevin Brady, KB	Independent Member
Cllr Fred Jackson, FJ	Blackpool Council (deputy member)
Cllr Chris Brewis, CB	Lincolnshire County Council

**Invitees:**

Chris Whittingham, CW	External Audit, Mazars
Alex Hire, AH	Internal Audit, RSM UK
Margaret Jackson, MJ	Department for Transport

**Officers:**

James Lyon, JL	Democratic Services Officer
Iain Craven, IC	Finance Director
Gareth Sutton, GS	Financial Controller
Deborah Dimock, DD	Legal
Haddy Njie, HN	Risk Manager
Ismail Badat, IB	Risk Planning & Portfolio

**Apologies:**

Cllr Liam Robinson, LR	Liverpool City Region
Cllr Mark Winnington, MW	Staffordshire County Council
Julie Openshaw, JO	Head of Legal

**1.0 Welcome and Apologies**

**Action**

- 1.1 Colleagues were welcomed to the meeting.
- 1.2 Apologies for absence were noted.

**2.0 Declarations of Interest**

2.1 There were no declarations of interest.

### **3.0 Minutes of the Last Meeting and Matters Arising**

3.1 The minutes of the meeting on 22 November 2019 were considered.

**RESOLVED:** To accept the minutes of the meeting held on 22 November 2019 as a true and accurate record.

### **4.0 Monthly Operating Report (R)**

- 4.1 IC referred back to previous Audit & Governance discussions around TfN reporting and summed up the reasoning behind the new report.
- 4.2 He noted that while there were still some ongoing changes being made to develop and improve the MOR, the overall aim to introduce one clear headline report that would go to all Boards and Committees was proceeding well.
- 4.3 CM asked if the report was public facing; IC replied that while they were not currently on the website, the plan was to host them there and the MOR would be presented at TfN Board in the public session.
- 4.4 CB added that he approved of the format and the idea and the Committee agreed.
- 4.5 IC updated the Committee on TfN's programmes:
- the Northern Rail franchise had been transferred to Operator of Last Resort, a move that TfN saw as a positive step.
  - TfN Board meeting on 8 January had approved the changes to IST due to lack of buy-in on the part of bus operators. The approach proposed split ABBOT outcomes to contactless on rail and local / regional schemes.
  - the Oakervee Review had been published and TfN was in the process of understanding the implications and a Member briefing had been held the previous day (Thursday 27 February).
  - expenditure in month was marginally behind the Revision 2 budget, partly due to modelling delays in the NPR programme and partly due to the change in scope of IST.
- 4.6 However, Audit & Governance felt that the budget variances were still worrying from a forecast point of view. IC replied that most of the current variance sat in the IST and NPR programmes and was reflective of the way that

TfN works, in that it works closely with and through partners and Train Operating Companies. The capex delays on IST were highlighted as a specific programme issue but one which was impacting on overall financial performance.

**RESOLVED:** The Committee noted and commented on the usefulness of the report.

## **5.0 Internal Audit Progress Report (R)**

- 5.1 AH presented the Internal Audit Progress Report including an update on the Absence and Wellbeing processes which had provided “substantial assurance” with regard to this area of the business with only some low impact issues around housekeeping and the absence recording system (a combination of email and manual input into the TALENT staff management software) identified.
- 5.2 TfN’s wellbeing policies and the appointment of Mental Health First Aiders and the programme of scheduled quarterly wellbeing events in both offices were noted as a positive benchmark.
- 5.3 AH added that the reviews for the 2019/20 financial year were now complete and discussions were ongoing with HR as to areas to focus on next year.

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

## **6.0 Draft Internal Audit Plan for 2020/21 (R)**

- 6.1 Section 2 of the report proposed areas for focus in the 20/21 plan. These had been identified through a risk assessment and discussion with officers.
- 6.2 The timetable on audits had been agreed with TfN management and the Committee was asked to approve the audit process.
- 6.3 KB asked if contract management included the distribution of grant; IC replied that didn’t as there is a different process for monitoring grant awards.
- 6.4 AH added that she was happy with the scope of the audits and the timings were indicative so specific audits could be moved up if required.
- 6.5 CM expressed concern over the “yellow” rating of the IT audit; AH replied that follow up work was in progress and that the issues identified were minor and that adequate controls were in place.

**RESOLVED:** The Committee approved the Draft Audit Plan and requested that the follow-up work to the IT Audit was brought to the next A&G

**Action:** Bring follow up IT Audit work to A&G in June RSM

## **7.0 External Audit Progress report (R)**

- 7.1 CW took the meeting through the Audit Strategy Memorandum which he noted had been discussed with IC and GS.
- 7.2 He specifically noted the process that Mazars had followed to set audit materiality and the fact that the 2% figure applied was indicative of their assessment that TfN was a lower risk enterprise.
- 7.3 KB asked about the reference to remuneration. CW responded that scrutiny on public sector pay meant that the concept of materiality was essentially set aside.
- 7.4 Page 11 of the report referenced pension liabilities which, due to their value and complexity require a greater level of audit focus. GS reminded members of the potential volatility in the pension accounting based on the spot valuation of the fund assets and its sensitivity to movements in bond prices.
- 7.5 CW noted that Mazars were comfortable with TfN's risk management processes and felt that the organisational VfM was good with arrangements around IST change of direction well handled.
- 7.6 The external audit had also undertaken initial test transactions within payroll, documented the systems and found no issues or problems.

**RESOLVED:** Audit & Governance noted the report and thanked Mazars for their work.

## **8.0 Treasury Management Strategy 2020/21 (R)**

- 8.1 GS presented the document setting out how TfN manages its money and investments, noting that as TfN did not have access to credit or borrowing the document was necessarily limited in scope.
- 8.2 The document sets out how TfN manages risk, cashflow and grants by considering security of funds, liquidity of the institutions holding them and yield (return on investment).

- 8.3 CM asked about the reference to Linked Asset Services; GS noted that this is TfN's external independent treasury management advisor.
- 8.4 KB asked if any stress testing had been done relating to possible loss of or reduction in funding. IC explained that as most of TfN's funding was received in the form of ringfenced grants, there is a robust commitment process before any contracts are signed to ensure that liabilities that TfN incurs are "back to backed" with departmental grants. In addition, the budgets for the major programmes all include contingency amounts within the overall grant allocations.
- 8.5 The current target reserve of £2m will be reassessed once the outcome of the 2020 spending review is understood.

**RESOLVED:** The Committee noted the report.

#### **9.0 Accounting Policies 2019/20 (R)**

- 9.1 It was noted that this report is consistent with that presented to Audit & Governance Committee last year and sets out the proposed accounting policies that TfN will adopt.
- 9.2 GS had highlighted some comments within the document but noted that as the operating environment and programmes within TfN remain consistent with the previous year there was limited need for accounting policies to be amended.
- 9.3 Item 10 concerned Leases with GS explaining that a change will be required in future years in relation to lease accounting. Currently, Finance Leases are capitalised onto the balance sheet while Operating Leases are not. In future, all will go onto the balance sheet creating a change in look and feel to the accounts.

**RESOLVED:** The Committee noted the report.

#### **10.0 Annual Governance Statement Review (R)**

- 10.1 TfN is obliged to produce an Annual Governance Statement. A review has been carried out by DD, HN and GS and the update to the Audit & Governance Committee was intended as an update on the preparation of the document.

- 10.2 A further review had been carried out of the Gifts & Hospitality policy, mainly concerned with improving the standards and consistency of recording information.
- 10.3 DD talked through the amendments made, all of which were accepted by the Committee.
- 10.4 Further amendments were also going to be made to the Constitution to accommodate the changes to Partnership Board agreed at the last TfN Board (invitation to TUC, environmental groups and disability groups), a revised whistleblowing policy, the Blake-Jones Review and the Northern Transport Charter.
- 10.5 GS added that there was also a review of existing internal procurement processes and a new risk management software that was in procurement (currently awaiting contract award with approx. 6 months to implement and embed).

**RESOLVED:** The draft was noted.

#### **11.0 NPR Governance (R)**

- 11.1 RSM had conducted a review of NPR Governance and associated processes. The RSM report is consistent with work that TfN had already noted and was addressing.
- 11.2 The Terms of Reference had been updated and put into a new Memorandum of Understanding. TfN has a co-client (i.e. shared control) arrangement with DfT regarding NPR and the document sets out the RACI. It was noted that due to the co-client relationship some of the responsibilities are shared between TfN and the department, which is not standard practice.
- 11.3 This review was prior to the Oakervee Review and the announcements in relation to High Speed North. The MOU sets out the current arrangements and does not necessarily reflect how things might work in future. Currently TfN employees work alongside DfT managing significant work programmes, with most of the work being delivered through contracts and sub-contracts (the biggest contract being with Network Rail).

**RESOLVED:** Audit & Governance Committee approved the new MOU for presentation to TfN Board on 12 March.

**Action:** Take the revised MOU to TfN Board on 12 March.

#### **12.0 Exclusion of the Press and Public (V)**

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12.1 To resolve that the public be excluded from the meeting during consideration of Item(s) [13] on the grounds that:

- (1) It is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if a member of the public were present during such item(s), confidential information as defined in S100A(2) of the Local Government Act 1972 (as amended) would be disclosed to them in breach of the obligation of confidence; and/or
- (2) it/they involve the likely disclosure of exempt information as set out in the Paragraphs [listed below] of Schedule 12A of the Local Government Act 1972 (as amended) and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

12.1 NB. No members of the press or public were present.

### **13.0 Risk Review (R / P)**

13.1 HN talked through the risk report, highlighting in particular the revised risks around the change in scope of IST. In addition, HN highlighted the issues (materialised risks) facing Phase 1 and Phase 2 of the programme. Phase 4 funding was highlighted as a High Risk, with ongoing discussions underway with the Department to agree the approach to be undertaken.

13.2 Within NPR, it was noted that the impact of the High Speed North announcement was currently unclear, and a further update would be provided at the next meeting. HN continued to report the issues around the touchpoints (Manchester Piccadilly and Stourton Junction) and the progress in their resolutions to make sure there is continued transparency in TfN's programme management activities.

13.3 Northern Infrastructure Fund is currently listed as an opportunity. However, there is currently limited understanding of this, with further information expected after the Budget announcement. At this stage a further risk analysis will be undertaken and presented at the June A&G.

**Action:** Present a further risk analysis after the Budget announcement for presentation at the June A&G HN

13.4 One of the risks within the Strategic Rail programme concerning franchise underperformance had been

managed to a certain extent by permitting TPE to reduce the number of services to maintain reliability on the remaining ones. It was noted that there was significant focus on TPE performance given that it has been on a par with that of Northern and had had a greater impact in certain geographies (for instance up the eastern side of the region).

**RESOLVED:** The Committee noted the report and thanked HN for her work.

#### **14.0 Any Other Business**

14.1 No other business was raised.

**The meeting concluded at 2:00pm**

r = report; p = presentation; v = verbal