

# Transport for the North Audit and Governance Committee – Item 4

**Subject:** Audit and Governance Committee - Terms of Reference and Code of Corporate Governance.

**Author:** Mark Hardman, Democratic Services Officer

**Sponsor:** Sasha Wayne, Head of Legal Services

**Meeting Date:** Wednesday 19 September 2018

## **1. Executive Summary:**

- 1.1 The report presents as 'scene setting', or as introductory documents for the Committee, the terms of reference for the Audit and Governance Committee and Transport for the North's Code of Corporate Governance as contained within Transport for the North's Constitution.
- 1.2 The documents are presented for Members' information in the first instance as forming the 'base' documents for the work of the Committee.
- 1.3 Members are then invited to make any initial comments or observations on the content of the terms of reference and the Code of Corporate Governance that will feed into the review of Transport for the North's Constitution as referenced elsewhere on the agenda for this meeting.

## **2. Recommendation:**

- 2.1 That the Committee note this report, the terms of reference for the Audit and Governance Committee and Transport for the North's Code of Corporate Governance.
- 2.2 That Members make comment on the two documents as presented, such comments to inform the ongoing review of Transport for the North's Constitution.

## **3. Issues:**

- 3.1 The terms of reference for the Audit and Governance Committee and Transport for the North's Code of Corporate Governance are contained within the Transport for the North Constitution adopted by the Transport for the North Board at a meeting held on 5 April 2018.

3.2 It is considered appropriate, as part of the scene setting at the initial meeting of the Committee for members to receive these key documents which form the base 'building blocks' for the work of the Committee going forward.

3.3 It is also timely for the Committee to receive and consider these documents specifically in light of the Constitution review that is referenced elsewhere on the agenda.

**4. Appendices:**

4.1 Appendix 1 – Audit and Governance Committee Terms of Reference

4.2 Appendix 2 – Transport for the North Code of Corporate Governance

## List of Background Documents

### Required Considerations

Please confirm using the yes/no options whether or not the following considerations are of relevance to this report.

#### **Equalities:**

|                         |  |    |
|-------------------------|--|----|
| Age                     |  | No |
| Disability              |  | No |
| Gender Reassignment     |  | No |
| Pregnancy and Maternity |  | No |
| Race                    |  | No |
| Religion or Belief      |  | No |
| Sex                     |  | No |
| Sexual Orientation      |  | No |

| <b>Consideration</b> | <b>Comment</b>  | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|---|----------------------------|-----------------|
| Equalities           | A full Impact assessment has not been carried out because this report relates to Constitutional matters only. | MH                         | DM              |

#### **Environment and Sustainability**

|  |    |
|--|----|
|  | No |
|--|----|

| <b>Consideration</b>         | <b>Comment</b>  | <b>Responsible Officer</b> | <b>Director</b> |
|------------------------------|---|----------------------------|-----------------|
| Sustainability / Environment | A full impact assessment has not been carried out because this report relates to Constitutional matters only. | MH                         | DM              |

#### **Legal**

|     |  |
|-----|--|
| Yes |  |
|-----|--|

| <b>Consideration</b> | <b>Comment</b> | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|----------------|----------------------------|-----------------|
|----------------------|----------------|----------------------------|-----------------|

|       |   |    |    |
|-------|---|----|----|
| Legal | Transport for the North Legal Team has confirmed there are no legal implications and that the Constitutional matters are adequately covered in this Report. | MH | DM |
|-------|---|----|----|

### Finance

|  |    |
|--|----|
|  | No |
|--|----|

| <b>Consideration</b> | <b>Comment</b>  | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|---|----------------------------|-----------------|
| Finance              | Transport for the North Finance Team has confirmed there are no financial implications. | MH                         | DM              |

### Resource

|  |    |
|--|----|
|  | No |
|--|----|

| <b>Consideration</b> | <b>Comment</b>   | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|--|----------------------------|-----------------|
| Resource             | There are no resource implications as the report deals with Constitutional matters only. | MH                         | DM              |

### Risk

|  |    |
|--|----|
|  | No |
|--|----|

| <b>Consideration</b> | <b>Comment</b>  | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|---|----------------------------|-----------------|
| Risk                 | A risk assessment has not been carried out as the report deals with Constitutional matters and is for information only. | MH                         | DM              |

### Consultation

|  |    |
|--|----|
|  | No |
|--|----|

| <b>Consideration</b> | <b>Comment</b>  | <b>Responsible Officer</b> | <b>Director</b> |
|----------------------|---|----------------------------|-----------------|
| Consultation         | A consultation has not been carried out because this report relates to procedural matters only. | MH                         | DM              |

## **APPENDIX 1**

### **Audit and Governance Committee Terms of Reference**

#### **Transport for the North Constitution Extract**

##### **PART 4 COMMITTEES**

##### **22 Audit and Governance Committee**

###### **22.1 Statement of purpose**

22.1.1 The Audit and Governance Committee is a key component of corporate governance providing an independent, high-level focus on the audit, assurance and reporting framework underpinning financial management and governance arrangements. Its purpose is to provide independent review and assurance to Members on governance, risk management and control frameworks. It oversees financial reporting, the Annual Governance Statement process and internal and external audit, to ensure efficient and effective assurance arrangements are in place.

22.1.2 Membership comprises:

- a) four members of Transport for the North (not the Chair, or Vice Chair) appointed by Transport for the North; and,
- b) three Independent members (to be recruited on the basis of relevant skills);

A representative of DfT (Department for Transport) will be invited to attend meetings.

22.1.3 The Constitution places responsibility on the Audit and Governance Committee 'to oversee the effectiveness of Transport for the North's risk management arrangements'. The Constitution also makes the Finance Director responsible for discharging the functions of the 'responsible financial officer' under the Accounts and Audit (England) Regulations 2015, including ensuring risk is appropriately managed.

###### **22.2 Terms of Reference**

22.2.1 The core functions of the Authority's Audit and Governance Committee are to:

- a. approve Accounts;
- b. recommend Approval of the annual statement of accounts for Transport for the North;
- c. governance, risk and control;
- d. review corporate governance arrangements against the Code of Corporate Governance and the good governance framework;
- e. review the Annual Governance Statement (AGS) prior to approval to ensure it properly reflects the risk environment and supporting assurances;
- f. monitor the effectiveness of arrangements to secure value for money;
- g. be satisfied that the assurance framework adequately addresses risks and priorities including governance arrangements in significant partnerships;

- h. Monitor Transport for the North's risk and performance management arrangements including review of the risk register, progress with mitigating action and the assurance map;
- i. Consider reports on the effectiveness of internal controls;
- j. Monitor the anti-fraud strategy, risk-assessment and any actions.

### 22.3 **Internal audit**

22.3.1 Recommend Approval of the Internal Audit Charter.

22.3.2 Oversee and support Internal Audit's effectiveness including strategy, planning and process and ensure conformance with Public Sector Internal Audit Standards (PSIAS).

22.3.3 Approve the risk-based internal audit plan including resources, the reliability of other sources of assurance and any significant in-year changes.

22.3.4 Make enquiries of the Finance Director and other managers to determine any inappropriate scope or resource limitations.

22.3.5 Consider reports and assurances from the Finance Director in relation to:

- a. internal Audit performance including key findings and actions from audit assignments, significant non-conformance with PSIAS and the Quality Assurance and Improvement Programme;
- b. annual Assurance Opinion on the adequacy and effectiveness of the framework of governance, risk management and control;
- c. risk management and assurance mapping arrangements;
- d. progress to implement recommendations including concerns or where Officers have accepted risks that the Authority may find unacceptable;
- e. provide assurances over the effectiveness of internal audit functions assuring the internal control environments of Transport for the North.

22.3.6 Contribute to the Quality Assurance and Improvement Programme, including the external quality assessment of internal audit.

22.3.7 Consider and comment on the Finance Director's Annual Review of the Effectiveness of the System of Internal Audit.

22.3.8 Develop effective communication with the Finance Director and senior audit staff.

### 22.4 **External audit**

22.4.1 Consider reports including the Annual Audit Letter, assess the implications and monitor managers' response to concerns.

22.4.2 Comment on the nature and scope of work to ensure it gives value for money.

22.4.3 Advise on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

## 22.5 **Financial reporting**

22.5.1 Consider whether accounting policies were appropriately followed and any need to report concerns to the Authority.

22.5.2 Consider any issues arising from external audit's audit of the accounts.

22.5.3 Ensure there is effective scrutiny of the treasury management strategy and policies in accordance with CIPFA's Code of Practice.

22.5.4 Make recommendations to the Finance Director and Monitoring Officer in respect of Part 6 of the Constitution (Financial Regulations).

## 22.6 **Membership and Quorum**

22.6.1 The Committee shall be composed of 7 members and the quorum shall be four of whom at least two shall be representatives of the Constituent Authorities.

## 22.7 **Accountability arrangements**

22.7.1 Report the Committee's findings, conclusions and recommendations to the Authority on the effectiveness of governance, risk management and internal controls, financial reporting and internal and external audit functions.

## Appendix 2

### Transport for the North Code of Corporate Governance

#### Constitution Extract

##### SECTION D CODE OF CORPORATE GOVERNANCE

##### 60 Introduction

60.1 The definition of corporate governance is that it is about ‘how bodies ensure they do the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and culture and values, by which bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities’.

60.2 Transport for the North (Transport for the North) has approved and adopted a code of corporate governance which is consistent with the principles of the best practice guidance issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The framework is based upon the following six core principles:

- a) Focusing on the purpose of Transport for the North and the outcomes for the community and creating and implementing a vision for the local area;
- b) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- c) Promoting values for Transport for the North and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- e) Developing the capacity and capability of members and officers to be effective;
- f) Engaging with local people and other stakeholders to ensure robust public accountability.

60.3 Transport for the North is committed to meeting these principles and this statement sets out how the supporting principles beneath each statement will be achieved, monitored and reviewed.

##### 60.4 Transport for the North’s Core Principles

60.4.1 Focusing on the purpose of Transport for the North and on outcomes for the community and creating and implementing a vision for the local area.

60.4.2 Supporting principles:

- a) Exercising leadership by clearly communicating Transport for the North’s purpose and vision and its intended outcome for citizens and service users;
- b) Transport for the North working closely with the Transport for the North Partnership Board has drawn up the Transport Strategy. This sets out the vision for improved

connectivity across the wider region and is an ambitious transformational; pan-northern strategy and investment programme to drive and support economic growth in the North. This Strategy has been developed further into the Strategic Transport Plan for the North;

- c) The Strategic Transport Plan will set out the transport priorities for the region across all forms of transport and show the ambition to improve connectivity and so to create additional jobs and grow the economy. Further detailed plans will set out specific projects, funding and timescales for delivery;
- d) Ensuring that users receive a high quality of service;
- e) Transport for the North will produce regular reports setting out its targets and the achievement against them. This will include progress on key investment projects;
- f) Ensuring that Transport for the North makes best use of resources and that tax payers and service users receive excellent value for money;
- g) Transport for the North will prepare a medium term financial strategy which is scrutinised by Members to ensure it supports the ambitions of Transport for the North. Detailed annual budgets are considered and approved by Transport for the North and shared with the constituent Councils. Annual accounts are produced within three months of the year end and an audit opinion on these and on the value for money position is provided by external auditors.

60.4.3 Members and officers working together to achieve a common purpose with clearly defined functions and roles.

60.4.4 Supporting principles:

- a) Ensuring effective leadership throughout Transport for the North;
- b) Ensuring a constructive working relationship exists between elected Members and Officers;
- c) Ensuring relationships between Transport for the North and the wider Partnership are clear.

60.4.5 Transport for the North has in place clear constitutional documents and a Committee structure covering all aspects of Transport for the North's activities. The Partnership Board, supported by the LEP'S, brings together Members and business leaders from the private sector to advise Transport for the North on strategic decisions.

60.4.6 Schemes of delegation have been put in place to enable Committees, the Chief Executive, Monitoring Officer and Directors to work effectively and make decisions in a transparent way. Statutory officers with the appropriate skills and resources have been appointed and ensure advice is given on the necessary financial and procedural matters.

60.4.7 The ways of working are published and reviewed annually, including Standing Orders and Financial Regulations, schemes of delegation, and a protocol for Member/Officer relations. A Scrutiny Committee of co-opted members from all constituent authorities includes within its terms of reference the review of any decision of Transport for the North and an Audit and Governance Committee oversees financial and audit matters.

60.4.8 Promoting values for Transport for the North and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

#### 60.4.9 Supporting principles

- a) Ensuring members and officers exercise leadership by behaving in ways that uphold high standards of conduct and exemplify effective governance;
- b) Ensuring that organisational values are put into practice and are effective;
- c) Transport for the North expects the highest standards of conduct and personal behaviour from its Members and employees. Robust arrangements are in place to ensure that these high standards are promoted and upheld. Organisational values have been adopted by Transport for the North and are reflected in policies and protocols;
- d) Transport for the North has issued, and keeps under regular review, a number of documents including an Officer Code of Conduct, a complaints procedure and an anti-fraud and anti-corruption policy which includes the whistleblowing policy. All employees are trained in the values, standards, policies and procedures that Transport for the North expects them to adhere to.

#### 60.4.10 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

#### 60.4.11 Supporting principles:

- a) Exercising leadership by being rigorous and transparent about how decisions are made;
- b) Having good quality information, advice and support;
- c) Making sure an effective risk management system is in place;
- d) Recognising the limits of lawful action;
- e) Transport for the North ensures that decision making is transparent and that appropriate advice is taken in reaching decisions. All decisions of Transport for the North and its Committees are made in public meetings with documents available to the public via the internet. Officer decisions are taken in accordance with the schemes of delegation in place and are recorded. The Partnership Board publishes its papers and minutes via the internet. Investment decisions are made in the context of an assurance framework that meets national guidance and that is reviewed annually. The Scrutiny Committee, made up of co-opted Members from across the region, meets regularly and provides the mechanism for ongoing constructive scrutiny and challenge;
- f) Appropriately skilled and qualified officers provide advice and input to the decision-making process;
- g) Transport for the North has in place a Publication Scheme that complies with the requirements of the Transparency Code and enables the public to directly access a range of information on its website;
- h) A risk management framework is in place and is overseen by the Audit and Governance Committee. Senior Officers meeting as the Operations Board manage and develop the risk management arrangements and oversee health and safety risks, ensuring compliance with health and safety legislation and an appropriate management of those risks. A risk manual provides practical guidance to officers in recording, monitoring and managing risk through the performance management system;
- i) Transport for the North has arrangements in place to ensure it collects, uses and stores information and data appropriately;

- j) The Audit and Governance Committee oversees all governance arrangements and ensures these are operating effectively. It monitors and formally reviews the work of the internal audit function and considers the annual review of internal control produced by the Internal Audit Manager;
- k) Transport for the North is committed to openness and transparency and arrangements are in place to enable webcasting of meetings of Transport for the North and its committees and ensuring similar standards of transparency are achieved for Partnership Board meetings. Further consideration of the Publication Scheme will also take place to understand whether there is further information that could be published.

60.4.12 Developing the capacity and capability of members and officers to be effective.

60.4.13 Supporting principles:

- a) Making sure Members and Officers have the skills, knowledge, experience and resources they need to perform well;
- b) Developing the capability of people with governance responsibilities;
- c) Encouraging new talent for membership of Transport for the North;
- d) Transport for the North seeks to ensure all Members and Officers have the necessary skills and training to fulfil their roles. Members receive an induction programme when they are appointed to Transport for the North and this is supplemented by specialised training courses where appropriate. Officers are appointed using competency based job descriptions and their performance against these competencies is regularly monitored and reviewed. A detailed learning and development plan ensures that training needs are met at both an individual and an organisational level.

60.4.14 Engaging with local people and other stakeholders to ensure robust public accountability.

60.4.15 Supporting principles:

- a) Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders;
- b) Transport for the North engages with stakeholders and local people in a variety of ways. Its actions are readily available to the public via the publication of all meeting papers and decisions on the internet and the public nature of all its meetings;
- c) The Partnership Board provides the forum for bringing together the public and private sector on strategic policy matters;
- d) Transport for the North website is set up both to provide information and to engage with local people;
- e) For all significant projects and strategies public consultation will be undertaken both electronically and in the form of public meetings;
- f) Work to be undertaken during the year will include consideration of how current arrangements for local engagement on transport matters could be extended to include the wider economic agenda. The format and nature of these meetings will also be considered.

60.5 **Monitoring and Review**

- 60.5.1 It is the responsibility of the Audit and Governance Committee to keep corporate governance matters under review. As part of this process it undertakes regular reviews throughout the year with a formal review at the year end of the processes and systems in place during the year. This includes the results of the work carried out by the internal audit section. The Committee reviews the Annual Governance Statement which forms part of the statutory annual accounts which are subject to external audit. The Committee review and recommend this statement to Transport for the North for consideration and approval.