



# Audit and Risk Assurance Committee

## Annual report to Board

May 2014

**AUDIT AND RISK ASSURANCE COMMITTEE  
ANNUAL REPORT TO THE BOARD  
MAY 2014**

**1. Chairman's Introduction**

In accordance with its Terms of Reference, I am pleased to submit this Annual Report of the Audit and Risk Assurance Committee (ARAC) for 2013-14 to the board.

This report covers the successful conclusion of the business of the last financial year, in which we anticipated an unqualified set of accounts from the Comptroller and Auditor General (C&AG). It also covers accountancy and audit functions for this year. While I have no matters of significant concern to bring to the attention of the board, you should note that we have not yet been able to finalise the Annual Report and Accounts for this year due to the delay in the NAO audit. This is an unfortunate issue of timing rather than any concern over content or level of risk.

Risk has been a major focus for this year, illustrated by the change in the committee's name to include 'risk assurance'. We have spent much of our time reviewing reports from our internal auditors on matters that represent financial, operational or reputational risk to the organisation. We have also reviewed corporate and team risk registers on a cyclical basis and concluded that the assessment of risk against the top 7 objectives was a worthwhile exercise.

You will be aware that the non-executive members of the ARAC were all newly appointed in August 13 and we have taken this opportunity to review many of the processes that underpin our work, as well as making an early assessment of our own effectiveness. We anticipate these actions should improve our efficiency and value to the organisation and plan to continue with this work in the coming year.

I would like to record the committee's thanks to Nigel Holden, Jon carter and their teams and to our representatives from the NAO and DfT. We are grateful for their work and look forward to their continued support in the ambitious programme of activity we have identified for next year.

**Marian Lauder**

Chair

Audit and Risk Assurance Committee

## **2. The Purpose of the Committee**

The ARAC is a committee of the Passenger Focus Board and reports to the board after each meeting.

The ARAC is governed by its Terms of Reference which include delegations from the board and which the board reviewed and updated in February 14. In essence, the ARAC supports Passenger Focus on all matters relating to corporate governance and financial management and oversees the process of internal and external audit. This entails providing guidance to the Chief Executive in his role of Accounting Officer and includes challenge to the management team on its interpretation of risk and other information reported to the committee.

## **3. Key Issues and Concerns for the Future**

### *Annual Report and Accounts 2014*

Due to resource constraints, the NAO have been forced to delay completion of their audit until June 14. In turn, this will delay certification of the Passenger Focus Annual Report and Accounts, although we have been assured this will not have a detrimental impact on completion of the DfT's final accounts. It will require swift and additional effort on behalf of the management team and ARAC to ensure the Annual Report and Accounts are laid before Parliament ahead of the summer recess. This situation has been explained to DfT in an exchange of letters and e-mails between Passenger Focus, the NAO and our DfT sponsor. We should be reassured that the NAO delay reflects their assessment that we present a very low risk.

### *Performance Reporting*

The ARAC has expressed support for the proposed revisions to the performance reporting process, which would result in more focused reporting to the management team and the board. Performance and risk should be seen as linked entities, effectively 2 sides of the same coin. Consequently, the ARAC will monitor the introduction of the new performance reporting process to ensure it stimulates more dynamic conversations about the balance between performance and risk, thereby improving the standard of governance at board level.

### *Emerging Risks*

Given the degree of ongoing and anticipated change in the activities of Passenger Focus, the ARAC considers it timely to take a look at emerging corporate risks that might materialise once the accumulated activities of things such as franchising,

roads and alternative delivery models start to have an impact. Whilst each project team will consider risks within their projects, it is vital to take a view on the cumulative impact of these changes.

### *Succession Planning*

Last year's report to the board proposed that the ARAC should keep developing work on succession planning under review. This subject will feature on the internal audit programme for 2014/15, which will serve to stimulate further development of our succession planning thinking and processes both before and after the audit.

### *Board Self-Assessment*

The ARAC notes that the Board has not carried out a self-assessment exercise in the past year, as recommended in current guidance, and recommends that this is programmed in the next 12 months.

## **4. Assurances**

The ARAC provides the following specific assurances to the board:

### *Challenge and Accountability*

That it is satisfied that it is discharging its duty of review and challenge in respect of the comprehensiveness, reliability and integrity of the assurances it receives from management and others.

These assurances are sufficient to support the board and the Accounting Officer in taking decisions and fulfilling their accountability obligations.

### *Management Assurance 2012-13*

The business of the last Financial Year was successfully concluded with the submission of the year-end Management Assurance Statement to DfT and the laying of the Annual Report and Accounts before Parliament by the C&AG on 27 June.

### *Management Accounts for 2013-14*

The financial reports which the committee reviews quarterly appear to provide a fair and reasonable summary of the financial position of Passenger Focus and the quality of financial management.

## *Audit and Risk*

The business of the last Financial Year was successfully concluded with production of the NAO Completion Report, which raised no issues of concern, and presentation of a 'Substantial' internal audit opinion to the Accounting Officer on 17 June.

The Railways Act 2005 requires Passenger Focus to submit its accounts to audit by the C&AG, thus the NAO provide the external audit function. The ARAC have approved the NAO's audit strategy for 2013-14, which has an added focus on transition to the new payroll provider. The audit fee was agreed at £21k. As directed by the Combined Code, we have assessed and continue to find the NAO provide quality, objectivity, independence and value for money.

The Management Statement agreed with DfT requires that Passenger Focus has an internal audit function. This is provided by the Cross-Departmental Internal Audit Service (XDIAS), in our case largely drawn from the DfT Internal Audit function who operate a 'Chinese wall' between themselves and our sponsorship team. There have been some issues arising from the operation of the internal audit programme this year, some of which possibly result from the change to the XDIAS structure. There has been in-depth discussion between management and auditors over 2 audits, with the result that one opinion was increased from 'partial' to 'reasonable'. The internal audit programme for 2013-14 is nearing conclusion and the results are at Annex A to this report. Findings were:

- Third party funded research: Substantial
- Business continuity: Partial
- Procurement framework: Reasonable
- Appeals complaint handling: Substantial
- Core controls: ongoing

The ARAC has reviewed risk against the top 7 corporate objectives and found this to be a useful exercise to achieve a common understanding amongst management team members of the main programme risks and associated mitigating actions.

The ARAC has received and agreed quarterly reports on the subject of information risk.



The ARAC has reviewed and agreed the following policies/registers:

- Membership codes
- Register of outside interests
- Register of gifts and hospitality
- Fraud policy and fraud response plan
- Whistle blowing policy
- Document classification policy

## **5. ARAC Management and Self-Assessment**

The ARAC non-executive members have assessed the committee's performance against the NAO performance checklist and concluded that there are no major areas of concern. The ARAC is developing well in terms of its internal relationships, skills and understanding of the issues it addresses.

The ARAC has improved various internal committee processes in order to improve its efficiency and effectiveness:

- Ensured letters of appointment were issued by the Chair of Passenger Focus to new non-executive members of the ARAC
- Conducted a skills audit of committee members
- Updated and improved the cyclical meeting agenda
- Identified training for committee members
- Updated the committee's Terms of Reference and delegations from the main board.

## **6. Future Plans**

In August 14 the non-executive committee members will reach the end of their first year of appointment to the committee and this anniversary offers the opportunity to contemplate future priorities for action. In addition to those highlighted at paragraph 3 above, the ARAC will continue to monitor our preparedness for the Triennial Review and, should it appear imminent, will look carefully at the implications of creating a PaxCo. During the coming year we will review the over-arching risk strategy and make recommendations to the board.

We will also work in coordination with the Remuneration Committee to ensure that HR risks identified there are considered against the wider risk framework regularly assessed by the ARAC. We will use this broad view of risk to ensure that internal audit takes a longer term strategic approach to potential issues facing Passenger

Focus. In support of this, we will continue to monitor the impact of this year's change to a cross-Departmental internal audit structure.

We will continue to improve our own functioning and processes including reviewing our activity against the 'key question list' provided by HM Treasury and seek to ensure we comply with any mandated compliance frameworks.