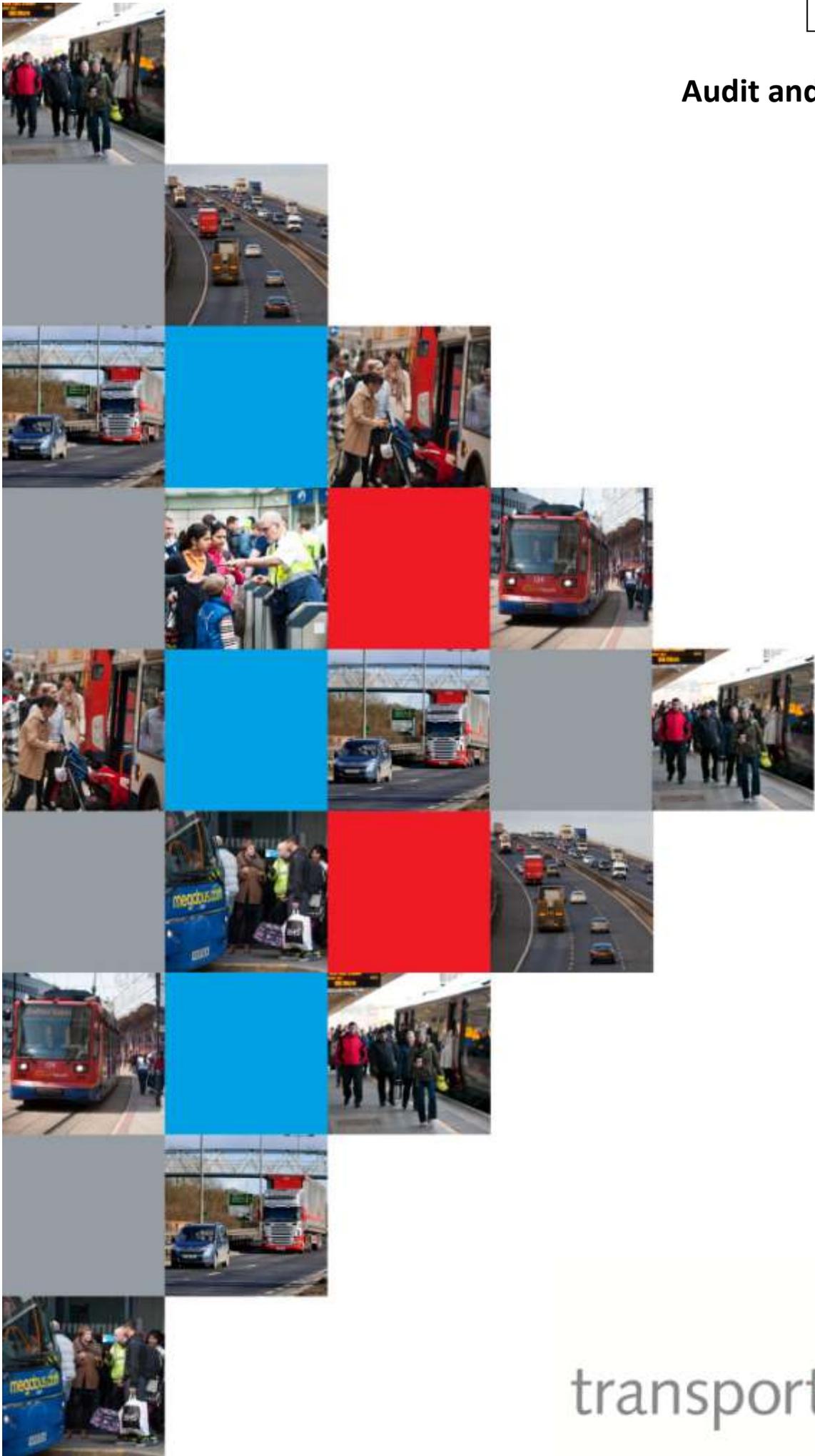


# Audit and Risk Assurance Committee

Annual report to  
Board

May 2015



**AUDIT AND RISK ASSURANCE COMMITTEE  
ANNUAL REPORT TO THE BOARD  
MAY 2015**

**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 2014-15 to the board.

This report covers the successful conclusion of the business of the previous financial year, in which we received 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 finalised the Annual Report and Accounts for this year but this is expected to run to plan.

This year has been dominated by the change plan and the introduction of the roads remit which together have brought about considerable change to the structure and running of Transport Focus. This in turn has exposed us to new types of risk. The ARAC has played and will continue to play its part in challenging the Senior Management Team over these risks that might affect the operation, financial management or reputation of the organisation. We do this through a cyclical process of reviewing corporate and team risk registers along with a detailed review of the project plan. This year has also seen the successful conclusion of the Triennial Review which was monitored throughout by the ARAC. This level of change and activity has placed Transport Focus under considerable stress and it is testament to the staff that there have been no significant occurrences in relation to risk and financial management.

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 Transport 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 2014. In essence, the ARAC supports Transport 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**

### *Triennial Review*

The ARAC has received reports on the Triennial Review throughout the year and provided advice, where necessary, to the Chief Executive, for example on the Corporate Governance Checklist that formed part of the evidence submission. The review supported the need for Transport Focus to continue, as an NDPB, and to take on the new roads remit. It found Transport Focus to have well-structured and effective governance systems, with an extremely high level of compliance. Its recommendations centred on adding even greater coordination and visibility with stakeholders.

### *Roads Remit and Change Management*

The year has clearly been dominated by the volume of change required to reposition Transport Focus to take on the roads remit. The ARAC has taken an early look at the Change Team risk register and provided advice to the Change Manager. Roads and Change will be a key focus for the ARAC for 2015-16 and will also be subject to internal audit. The ARAC will call for the Roads Team risk register early in the year to ensure that mitigating actions have been identified and enacted. The ARAC will also complete its second review of the Change Team risk register to ensure it has continued to develop soundly. Adding the roads capability while deepening our public transport passengers work, all in the context of tight budgets, opens opportunities and risks for internal staff and external recruits. ARAC monitors resource, succession and work environment issues, including coordinating with the Remuneration Committee.

### *Budget Management*

For the year 2015-16 the budget is once again very tight with little room for flexibility. It is all the more important then that Transport Focus is underpinned by a guiding annual workplan so that, in the event of new work or costs emerging, priorities can be decided quickly and effectively. In turn this will enhance the governance role of the Board. The ARAC will continue its quarterly review of the management accounts and will place particular emphasis on the provision of external funding, especially for the roads remit.

### *Alternative Delivery Models*

At its April 2015 meeting the ARAC had a substantial discussion on progress in considering Alternative Delivery Models for Transport Focus. With uncertainty over the stability of future Government funding, the need to progress this work becomes ever more pressing. A range of options is currently being considered that might reduce risk to the current budget or bring in higher levels of external funding. The ARAC will introduce this as a standing agenda item for the remainder of this year and provide guidance as necessary as the work continues.

### *Board Self-Assessment*

The ARAC notes that the Board has not carried out a self-assessment exercise in the past 2 years, 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 for 2013-14*

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 21 July 2015.

### *Management Accounts for 2014-15*

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

### *Audit and Risk*

The business of the previous 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 in July 2014.

The Railways Act 2005 requires Transport Focus to submit its accounts to audit by the C&AG, thus the NAO provide the external audit function. The ARAC have ensured that NAO completed its work promptly to enable the laying on of the Annual Report and Accounts before Parliament before the recess. The ARAC have approved the NAO's audit strategy for 2014-15 and agreed the audit fee 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 Transport Focus has an internal audit function. This is provided by the Government Internal Audit Agency (GIAA). The newly established GIAA is settling down well and our auditors are mostly drawn from those who previously worked for the DfT and so they have a good understanding of our work and working methodology. We have been generally content with the results of internal audits conducted this year. The internal audit programme for 2014-15 is complete and we have been given an overall 'Moderate' grading, which is the second of 4 grades and reflects the findings of the individual audits, which were:

- Rail franchise replacement activities: Substantial
- Equality and diversity: Moderate
- Resourcing and succession planning: Moderate
- Core controls: Moderate
- Business continuity follow up: Moderate

It had become apparent in 2013-14 that issues can arise over the internal audit scope, delays to the programme of work and content of the draft report. Therefore, at the beginning of this year, the Senior Management Team were advised to use the ARAC as an interface in the event of concerns over audits being conducted in their area. To date this safeguard has not been required but it remains in place.

The ARAC has reviewed corporate and team risk registers including, for the first time, the register for the Change Team. This has proved to be a useful exercise across the board and especially for the Change Team. Detailed reports have been included in the 6-monthly risk reports to the Board

The ARAC has received and agreed quarterly reports on the subject of information risk and has reviewed and approved the annual fraud and bribery risk assessment.

The ARAC has also reviewed the overarching risk strategy and found this to be still fit for purpose, subject to it being updated to reflect the roads remit.

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

- Whistleblowing policy
- Fraud policy
- Code of Conduct
- Outside interests
- Gifts and hospitality

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

The ARAC non-executive members have assessed the committee's performance against the HM Treasury 'Key questions for an Audit Committee to ask' checklist provided in the Audit and Risk Assurance Committee Handbook and concluded that there are no major areas of concern.

The HM Treasury Handbook also requires the ARAC to review the overall assurance framework for Transport Focus. This was completed in January 2015 with a review of the terms of reference and cyclical agenda for the committee.

## 6. Future Plans

In addition to the future priorities for action highlighted at paragraph 3 above, the ARAC will continue to provide advice and guidance to the development of the Project Plan, which has proven an extremely useful tool in monitoring the progress and completion of the high volume of wide-ranging projects being run throughout the organisation.

We will also work in coordination with the Statistics Governance Group (SGG) to ensure that research risks identified there are considered against the wider risk framework regularly assessed by the ARAC. The recent report received by the SGG on the NRPS methodology indicates that there is a need for coordination of the work of the 2 committees.

We will continue to improve our own functioning and processes including reviewing our Terms of Reference and cyclical agenda and judging our performance against the NAO guidance.