

Minutes

Remuneration Committee

Date: Wednesday 14 March 2012
Location: Meeting Room 1
Second Floor
One Drummond Gate
London
SW1V 2QY
Time: 13.15

Present

Committee Members

Nigel Walmsley
Deryk Mead CBE

NW Chairman
DM

Executive

Anthony Smith
Nigel Holden
Lesley Sherwin
Jon Carter

AS Chief Executive
NH Resources Director
LS HR Manager
JC Head of Business Services

1. Welcome and Apologies

The Chairman welcomed everyone to the meeting and noted no apologies.

2. Minutes from previous meeting

The Committee **approved** the minutes of the meeting held on 15 March 2011 and authorised the Chairman to sign them.

3. Action matrix

The Committee noted no outstanding issues from previous meetings.

Change programme 2011

4. Chief Executives report

(some text removed to protect confidentiality or anonymity)

5. Internal audit report

The report had been provided for information and comment. It provided 'substantial' assurance on process and outcomes. LS noted it reflected well on the entire change team and the effort put in across Passenger Focus. The Committee agreed.

6. Principal Civil Service Pension Schemes

NH outlined proposed changes to the schemes with effect from 2015; fundamentally, all pension schemes would move to career average earnings from 2015. Furthermore:

- any accrued benefits under existing schemes up to 2015 will be retained (ie linked to final salary) and be payable at retirement
 - Pension age will be aligned with the State Pension Age
 - Death in service benefits of two or three times salary
 - Average employee contribution rate will be 5.6%
 - Cap on employers contributions
 - Guarantee of no more pension reform for 25 years
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- Allow existing scheme members within 10 years of their current scheme pension age on 1 April 2012 to retain their current scheme retirement benefits, but they will have to pay the higher contributions. There will be additional protection for those just outside this period.

The Committee **noted** the changes proposed and the high level of current employer contributions to what was essentially an unfunded scheme – ie one which was simply paid out of government income with no investment arrangements behind it. There was no direct relationship with the state old age pension which was similar only in this respect. Most staff had chosen not to opt out of the schemes, the changes to which were more significant than the general level of interest in them might suggest. The Committee **agreed** that all reasonable steps should be taken to ensure staff were kept informed of developments.

7. Pay remit 2012-13

NH explained that the formal guidance had not yet been issued, but had been widely trailed. The costs of the proposals had been allowed for in the recent budget discussions with DfT. In anticipation of the forthcoming guidance however, the Committee **agreed** as follows:

- A pay increase of 1% from 1 April 2012 for all staff who joined Passenger Focus before 1 January 2012, with staff below £21,000 receiving a minimum rise of £250
- Increase in allowances of 1% from 1 April 2012
- Retain the existing non-consolidated performance related pay scheme with a pot of £15,000 for payments in respect of achievements in 2011-12.

8. Staff absence report

(some text removed to protect confidentiality or anonymity)

The Committee felt it would be further reassured by taking a look at comparative data for quarters one to three in both 2010-11 and 2011-12.

RC 19	14/03/12	Staff absences	<ul style="list-style-type: none"> • twelve month comparative analysis required 	LS	May 12
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The Committee urged the management to tackle long term sickness wherever it was clearly a problem; the interests of both individuals and the organisation were invariably better served in the longer term by taking action. LS confirmed that there were no employees currently absent on long term sickness, however she does work closely with managers when there is a problem, in order to be able to resolve any issues.

9. Staff survey

The Committee was pleased with the responses to the recent staff attitude survey but shared the management's disappointment that six staff had either chosen not to complete the survey or had simply forgotten about doing so. It was after all only a four minute exercise. AS expressed concern that a problem might be lurking beneath the surface but the Committee felt that this was unlikely given the open style of Passenger Focus's relationship with its employees.

10. Lone working policy

LS updated the Committee on technological developments to the implementation of lone working arrangements. The Committee **endorsed** the need to ensure that staff were as safe as they could reasonably be but that the policy and its implementation should be aligned with similar provisions for staff subject to a remote working agreement. LS would ensure this was the case.

RC 20	14/03/12	Lone working policy	<ul style="list-style-type: none"> Full account to be taken of read across to remote worker arrangements in place in final version of policy 	LS	May 12
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11. Performance related pay

The Committee **endorsed** the PRP / bonus scheme arrangements in place for end of year 2011/12 **noting** the size of the 'pot' had, further to reductions in headcount, been itself reduced from £20,000 to £15,000.

12. Any other business

LS raised the issue of staff non-cash benefits as a response to an appeal from the Staff Forum, which felt that as staff were effectively working for less (as pay increments did not and could not keep place with inflation) a review of such benefits might be interpreted that management was aware of the issue and would do what it could about it.

The Committee were not clear about what already existed and what was being proposed; LS provided clarity on the various current arrangements, including the right to buy and sell annual leave (up to certain strict limits) a policy about which the Committee again restated its dislike. The Committee considered that opportunities provided through external schemes and their promotion (generally rather than specifically) to staff was sensible provided there was no cost to Passenger Focus either in real or staff time terms (for example processing deductions from payroll) or complex third party agreements. The Committee also felt that such opportunities could form the basis for further discussion with Staff Forum if there was sufficient support so to do.

RC 21	14/03/12	Non cash benefits	<ul style="list-style-type: none"> Further discussion at staff forum required 	LS	May 12
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The meeting closed at 14.15.

Signed as a true and accurate record of the meeting.

Nigel Walmsley

Chairman

Remuneration Committee

Date

DRAFT V3X

Minutes

May 12 BM 9

Audit Committee

Date: Wednesday 18 April 2012

Location: Room 4
Second Floor
One Drummond Gate
London
SW1V 2QY

Start time: 14.00 hrs

Present

Committee Members

Bill Samuel	BS	Chairman
David Burton	DB	
Barbara Saunders OBE	BSa	

Executive in attendance

Anthony Smith	AS	Chief Executive & Accounting Officer
Nigel Holden	NH	Resources Director
Jon Carter	JC	Head of Business Services
David Sidebottom	DS	Passenger Team Director
Matt Ayson	MA	Business Services Executive

External guests

Ian Coates	IC	Group Head of Internal Audit DfT Audit and Risk Assurance
Jo Taylor	JT	Audit Manager National Audit Office
Darren Hall	DH	Internal Audit Manager DfT Audit and Risk Assurance

Apologies

Nick Bateson	NB	Director National Audit Office
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1 Chairmans opening remarks

The Chairman welcomed everyone to the meeting.

2 Minutes of previous meeting

The committee **approved** the minutes of the meeting held on 11 January 2012 and **authorised** the Chairman to sign them.

There were no matters arising from the minutes.

3 Action Matrix

The committee discussed the action matrix and **noted** the following items:

AC 88 Again, limited progress to date was noted in respect of Cabinet Office approval for the accounting system upgrade. NH reported however that HMT had now published draft proposals for a standard charts of accounts and it was clear that the current system would be non compliant. The committee therefore agreed that the issue must remain on the matrix for the time being. NH confirmed there was, taking other priorities into account, no serious reason why a financial provision for a systems upgrade in the new financial year could not be accommodated.

AC 107 This item was deferred to July 2012

All other current actions were **noted** as 'complete, delete'.

4.1 Q4 finance report

NH confirmed that running costs had come in on budget but that transition costs were lower than expected, and £250,000 has been returned to DfT as a result. He confirmed there was no impact on NPS funding. NH agreed to reconsider the alleged discrepancy on transition costs savings between his report and the tables which followed. He also confirmed that additional funding had been secured from DfT in 2012-13 for office relocation, further board recruitment, transparency and Wales / Scotland costs taking the total budget to £5.36m. BS congratulated NH and his colleagues for delivering total running costs so close to forecast.

4.2 Annual report and accounts

The committee **noted** the format for the forthcoming annual report and accounts, including an ‘appropriately dull’ governance statement, which AS and NH agreed could be brought to life with some headline achievements; the statement as drafted tended to downplay success if looked at in isolation.

AC 110	18/04/12	Governance statement	Breathe some life into governance statement	AS / NH	May 12	
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5.1 Internal Audit update (this section includes the discussion on items 6.1-6.4)

DH reported on the progress of the 2011-12 internal audit programme. The change programme and business planning audits (both substantial) and core controls / project budgeting (reasonable) were now complete, as was a review of senior appointments (for evidence of tax avoidance – DAO (GEN) 01/12 refers) – and confirmed that no significant concerns had been identified.

The planning work for 2012-13 was now complete, based on the most recent version of the corporate and team risk registers and meetings with most management team members and the Chairman. The committee was pleased to **endorse** the 2012-13 internal audit plan as presented, and with two topics in reserve. On one of these, that of PaxCo, the committee agreed that some upfront advice would probably be necessary in setting the venture up.

DB queried the adequacy of project management arrangements given the disproportionate variances identified in sampling in the project budgeting and delegation report. MA replied that a great deal of work had happened recently to ensure this didn’t continue to happen, as his performance report later in the meeting would demonstrate. In the meantime, the committee asked for an up to date list of financial delegations. JC confirmed that these were currently being worked on, as they needed to take account of the recommendations in the report. Nevertheless, the committee **endorsed** the agreed actions in the report whereby project funds would not be delegated at the beginning of the year as has been the case previously, but would be held in a central pot and only unlocked when the necessary brief had been provided, scrutinised, and approved. The committee asked for a progress report on this change at its next meeting.

The Committee **noted** the internal audit update and thanked DH for the greatly improved quality of the various audit reports.

AC 111	18/04/12	Schedule of delegations	Reissue once updated	JC / NH	July 12	
AC 112	18/04/12	Project funding	Progress report required	MA/SM	July 12	

5.2 Future of internal audit provision

Ian Coates introduced himself and the scope of his role. As group head of internal audit and head of profession he managed around 2,500 days of internal work a year spread over four teams (DfT central, Highways Agency, DVLA and VOSA) and assisted by partner PWC. He attends the major agency audit committee meetings, and hopes to attend a Passenger Focus audit committee once a year in the future. The relationship with heads of other teams is a grown up one, with internal escalation and resolution always preferable to a formal report to the Permanent Secretary.

The HMT review of internal audit provision across the central government sector started and then fizzled out around two years ago. It has recently been kick-started and reports in late summer 2012. IC himself is on the project's working group. The key task of the group is to identify a model for internal audit provision that helps identify and manage cross government risks, rather than keep them in silo's, which invariably means they are under reported. Emerging conclusions suggest that 'virtual' models might be the answer, not necessarily based around current departments but, for example, geographically or by business type, but with a strong common approach and methodology. In this respect, some issues need to be resolved; on core controls, for example, many departments have given up, whereas DfT still considers it an important area of its work.

Passenger Focus should not plan to do anything about market testing internal audit services until the report had concluded, but it was unlikely at this stage that it would offer much guidance in respect of value for money or cross government standards which could be used as benchmarks.

BS thanked IC for attending and his update on the review.

7.1 Q2 Information Risk Report

JC introduced the Q4 information risk report, but advised the committee that due to illness the Information Strategy Group had **not** met, as his paper suggested it had. The committee were interested to review the various FOIA / DPA cases over the year, looked forward to receiving the quarterly information risk assessment as

soon as ISG had been reconvened, and **noted** the report.

7.2 SIRO's annual report to accounting officer

The committee reviewed and **endorsed** the SIRO's annual information risk report to the accounting officer, which BS would countersign.

7.3 Interim CHP and Privacy Policy

JC explained that the complaint handling policy would be reviewed by the Passenger Advice Task Force, but it was the privacy policy, now joined to it, which the committee was invited to comment on. DS explained the updated CHP was still work in process, and that a review of its provisions had been prompted by a passenger drawing his attentions to areas where it was less than helpful. A further review of privacy policy had been conducted by JC and Jon Clay. The documents would be publicly available on the website. The committee expressed no reservations about the CHP or the privacy policy, but welcomed the opportunity to be reminded about this ongoing work.

7.4 SIRO's annual opinion on information threats and changes to services.

The committee reviewed and **endorsed** the SIRO's annual opinion on information threats and changes to services, which was not a 'public' report (although it was not confidential) and would help inform the work of the ISG over the next year. It was particularly interested to note the link between rising complaint levels and information risk, and the inclusion of the work required to respond to the government's transparency agenda.

8 Risk

8.0 Quarterly review of risks

JC confirmed that meetings with all heads of teams had taken place at the end of March to review risks identified by / assigned to them. The meetings took place with the benefit of the new year's work plan and team plans so that new versions of the registers could be developed. This has now been completed. JC met with AS the previous week to reconfirm these reviews and update the corporate risk register in the same way. No major issues were identified other than to note the considerable work across the organisation in taking measures to mitigate most risks to the point of coming off the register completely

8.1 Corporate risk register

AS introduced the corporate risk register, which as mentioned was considerably thinner than previous versions. Whilst Passenger Focus still faced risks, there was more certainty about their scope and scale now, a major change from even six months ago, when so little was known about so many things that inevitably a risk register was populated with too many risks and painted red. The trajectory of impact values remained reasonable in terms of alignment with risk appetite. The committee **noted** the corporate risk register and the deleted risks and updated risk assessments that had been made within it.

8.2 Risk report to the board

JC introduced the report which, although he had not consulted on it beforehand, followed a similar approach to the last six monthly report and he hoped he had interpreted the committee’s views successfully. In particular, he asked the committee to recommend to the Board the retention of the current statement of risk appetite which needed another year to bed down. The committee agreed, and **endorsed** the risk report for submission to the board at its May meeting in Manchester.

8.3 Business continuity update

MA updated the committee on preparations for the rehearsal in May which would include those board members available. Essentially It was to be a simulated exercise based on a ‘normal’ day in or out the office, but he had established clear objectives for the event on which he would report subsequently. The committee asked to see his report when available and congratulated him on his efforts which had eluded so many of his predecessors.

AC 112	18/04/12	BCP rehearsal	Report back to audit committee	MA	July 12	
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9 Business performance management: Reporting regime and key performance indicators 2012-13

MA set out his thinking about managing performance over the course of the new year, and the reviews he had conducted across Passenger Focus. He had been determined that performance indicators should be, above all, relevant and add value to the business, not just included for the sake of it.

In terms of operational reporting, the board saw much of this at its quarterly public meetings, through the workplan reports provided by David Sidebottom and Mike Hewitson, with summaries from other teams. What it didn't see, largely because it saw no need to, but which it looked to the audit committee to assure it was actually being generated and used, was underlying process driven data that management team need to run the business. A schedule of updated KPI's together with cumulative scores was now provided to management team every month. Further work was needed on the Passenger Team performance measures.

Project management arrangements had been a bigger challenge, as the internal audit report had indicated. Agreement had now been reached among colleagues that a brief was necessary for every project; quality, time and financial criteria would enable a post project review and permit a view to be taken on success; and projects could not begin – including no understandings reached with suppliers – until they had been authorised. The Chairman **reiterated** the committee's view on project budget delegation, as considered above, and congratulated MA for an outstanding piece of work.

10 Gifts and hospitality register 2011-12

The committee had previously asked to see this register annually as a matter of good practice. It noted the modesty of the entries on it. JC reminded the committee that it was only as good as the information he received to go on it. AS thought that he could probably declare a further level of meetings and conferences, but where do you stop? The committee had no concerns about the judgement being applied to such decisions, and **noted** the register.

11 Register of outside interests as at January 2012

The committee had previously asked to see this register annually as a matter of good practice. It **noted** the entries on it.

12 Annual report to Board

The Committee **endorsed** the final draft of its annual report to the Board which will be considered along with the review of effectiveness and satisfaction at the May meeting in Manchester.

13 Year end management assurance report

JC introduced the report, which the committee needed to endorse before it went to DfT. He thought that although it had been more difficult to complete this year, the questions were better framed and more useful than previously. DH thought there was a lot of 'green' on the report and that a closer look at the evidence – which had not been attached – might suggest there was some scope for further review. JC maintained he did not have time or resources to identify evidence throughout the report given the unlikelihood of anyone ever looking at it. DH indicated that these returns were now being considered more carefully; JT added that a review of some interim returns had been conducted by NAO and the results could be described as variable. BSa thought that on the evidence the committee had seen the organisation – which was fundamentally low risk – was being well managed and that the draft report demonstrated sufficient balance and common sense to be entirely defensible if challenged. The committee **endorsed** the year end management assurance report.

14 London office move

AS and NH briefed the committee on the proposed move to Fleetbank House, a process agreed with the Government Property Unit, and while there were a few queries to resolve before DfT would sign the MOTO these were not expected to be problematic. The lease would run from 1 June 2012, with a rent free period, and the move was scheduled for September. Agreement had been reached with the Charities Commission to occupy One Drummond Gate from December 2012, and the DfT had agreed to fund the additional costs incurred.

The committee agreed with AS that this was a good value for money outcome for the public sector.

15 Any other business

There being no further business, the meeting ended at 1540 hrs.

The next meeting of the committee is on 16 May 2012 at 0930 hours in Manchester, with NB and DH joining by video conference courtesy of ORR.

Signed as an accurate record of the meeting

Bill Samuel, Chairman

Date

Board meeting paper	
May 12 BM 10.0	
Report for	Decision <input type="checkbox"/>
	Information <input checked="" type="checkbox"/>
Restricted or confidential Information?	Yes <input type="checkbox"/>
	No <input checked="" type="checkbox"/>
If confidential, protective marking ¹	
Date of Meeting	16 May 2012
Agenda Item	10
Report Title	Audit Committee risk report for Q3 / Q4
Sponsor	Audit Committee
Author(s)	Jon Carter



1. Summary
<p>This half yearly report to Board covers those aspects of risk management within the Audit Committee's oversight. It is a requirement of its terms of reference that the Committee reports to the Board twice a year.</p>
2. Recommendations for action
<p>The Committee has one recommendation for action arising from discussions on risk management:</p> <ul style="list-style-type: none"> The statement of risk appetite for 2011-12 agreed by the Board appears to have worked well. The Committee considers it too early for a full review, and recommends the current statement is allowed to run on for 2012-13.
3. Serious risk management issues this half year
<p>The Committee was pleased to review the conclusions of the corporate governance and risk management audit at its January meeting. The audit opinion was 'substantial'. There were a few low priority management actions the more important of which was an annual, documented review of the Board's effectiveness. The committee agreed this was important and would consider, subject to the agreement of the Chairman, including this in its own annual review to the Board, where it could be discussed and noted for the record. This was also important in terms of future board recruitment and the diversity gap which existed on the current board. JC noted in respect of risk appetite alignment that the emphasis was on <i>wherever possible</i> – the committee agreed that sometimes it was necessary to tolerate a misalignment where a given risk could not be terminated, treated or transferred. The Committee thanked DH for a good report and commended the corporate governance team for the good result.</p>

¹ie RESTRICTED plus COMMERCIAL / POLICY / STAFF / PERSONAL PROTECT

4. Risk issues reviewed

The Committee has reviewed the following aspects of the risk management system this half year:

Element	Owner	Date last reviewed	Comments
Corporate risk register	Anthony Smith on behalf of management team	18/04/11	Whilst Passenger Focus still faced risks, there was more certainty about their scope and scale now, a major change from even six months ago, when so little was known about so many things that inevitably a risk register was populated with too many risks and painted red. The trajectory of impact values remained reasonable in terms of alignment with risk appetite.
Team risks: Passenger Issues Team	Mike Hewitson	11/01/12	Most risks focussed on impact (internal and external) rather than on work plan delivery. PIT01 (bus) was under control in this business year but future capacity was uncertain and a higher impact assessment might be expected going forward. PIT04 (bus, coach and tram complaints) may well drop to green over the coming months, and in that case would come off the register completely. The franchising and transparency risks had yet to be assessed and would be done so in light of the new year's work plan; they had been included for completeness. The Command paper on franchising would certainly help in this respect. The committee noted the Passenger Issues Team risk register and the risk assessments that had been made within it or which were outstanding.
Team risks: Research Team	Ian Wright	11/01/12	The Research team risk register had recently been reviewed by Statistics Governance Group. The Committee queried the low residual impact value of RSH01 – misuse of research data – and wondered if the risk was understated, especially as more data was becoming available online. IW said that notwithstanding the lack of resources to do anything more, the controls in place included 'health warnings' on sample size and other user guidance, and ultimately we could never prevent misuse if someone was determined to do so. AS added that Communications were always quick off the mark when a rebuttal was needed, and expressed his satisfaction with the way the risks were being managed when demands on the team were so high. The committee noted the Research team risk register and the risk assessments that had been made within it.

Element	Owner	Date last reviewed	Comments
Team risks: Resources Team	Nigel Holden	11/01/12	BS noted that controls in place appeared sound, even though complete alignment with risk appetite had a little way to go. NH expected this to resolve itself over the course of the next year – the restructured Passenger Focus was still settling down. DB queried whether the procurement risk RES02 was as problematic as was stated – wasn't this something the whole public sector had to live with? NH was clear that in his view, as a very small organisation, cross government procurement schemes <i>could</i> result in higher costs for Passenger Focus, where the margin to absorb any such increases had all but vanished. Until we understood more about these schemes the risk remained real. The committee agreed . The Resources team risk register and the risk assessments that had been made within it were noted.
Annual management assurance return to DfT	Jon Carter	18/04/12	The committee endorsed the annual management assurance return to DfT

5. Information Risk

The Committee also keeps a watching brief on information risk issues as it is required to do by IA Standard No 6 (protecting personal data and managing information risk) of HMG Security Policy Framework. The Senior Information Risk Owner (SIRO) (Jon) provides the Committee with a quarterly report.

Q	Date considered	Issues Comments
1	11/01/12	The Committee undertook to contact JC with any ideas for inclusion in his annual opinion on information threats and changes to services. The Information Strategy group had yet to meet for the quarter, but subsequently reconfirmed its info risk assessment to the committee.
2	18/04/12	The Committee reviewed FOIA and DPA cases for the year. It noted that work was beginning within Information Strategy Group to develop a transparency strategy. Social media risks had been added to the information asset risk register for the first time.

5. New developments / other issues

For the first time following its updated risk remit, the Committee has also reviewed the gifts and hospitality register and the register of outside interests. It appeared to the Committee that both registers were fulfilling their intended purpose.

6. Overall opinion

The Committee's overall opinion on the management of risk is set out below.

Rating	✓	Audit Definition
Full		Systems of corporate governance, risk management and internal control are fully established, documented and working effectively.
Substantial	✓	Systems of corporate governance, risk management and internal control arrangements are well established and working effectively. Very minor control weaknesses have been identified in a maximum of one or two discrete areas.
Reasonable		Systems of corporate governance, risk management and internal control arrangements are generally established and effective, with some minor weaknesses or gaps identified.
Partial		Systems of corporate governance, risk management and internal control are present and operating effectively except for some areas where material weaknesses or significant deficiencies have been identified, aspects of the control arrangements need documenting, or evidence does not exist to demonstrate effective operation.
None		Systems of corporate governance, risk management and internal control are poorly developed or non-existent or major levels of non-compliance or non-conformance have been identified. Control arrangements are not adequately documented, or evidence does not exist to demonstrate effective operation.



Audit Committee
Annual report and recommendations
to Board
Year ending March 2012

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1. Chairman's introduction

I am pleased to submit the Annual Report of the Audit Committee for 2011-12 to the Board pursuant to section 3.3 of the Committee's terms of reference and HMT guidance. Section 5 of this report describes some of our work in detail.

The Committee was pleased to receive and recommend to the Board an unqualified set of accounts and audit opinion from the Comptroller and Auditor General for the year 2010-11 in June 2011. This reflects well on both the management and staff involved and the Committee's oversight.

The Committee has no matters of significant concern to bring to the attention of Board. It does feel, however, and has recorded this concern accordingly, that the formal letter of budget delegation from our sponsor should materialise early in the financial year and not nine months into it. While grant in aid was being properly requested, authorised and drawn down over this period, there was technically no authority to spend in place, and we look forward to this being resolved for the new financial year. On the other hand, we were pleased to receive a 'substantial' assurance opinion on the corporate governance and risk audit which was commissioned and reported during the year. Other audits were less unequivocal but the Committee monitors corrective management actions flowing from them and is satisfied that these are indeed being addressed.

The Committee implemented a number of changes to its *modus operandi* previously agreed and to which we referred in last year's report. Principal among these was the updated risk management strategy and the new requirement for heads of team to discuss their risk profiles with the Committee annually. This has brought programme and operational risks to life in a way never previously realised and, together with a half yearly review of corporate and strategic risks and the Committee's risk report to the Board has resulted, we think, in a more useful discussion on the management of risks across Passenger Focus.

We also took the opportunity to review our own effectiveness this year, as this had not been done since 2010. Our conclusions are set out in section 6 and at annex B of this report. We also make some recommendations for the board to consider in terms of its own effectiveness. Once again, I should like to place on record the Committee's thanks to the staff that supported the Committee during the year, in particular Nigel Holden, Jon Carter, Shahid Mohammed - and Joel Braniff, who left as part of the change programme during the year. My thanks also do to my colleagues on the Committee and to Nick Bateson and Jo Taylor at NAO, and to Darren Hall of DfT Audit and Risk Assurance.

Bill Samuel

Chairman, Audit Committee

2. The purpose of the Committee

- The Audit Committee is a committee of the Passenger Focus Board and reports to it after each meeting.
- The Audit Committee supports Passenger Focus on all matters relating to corporate governance, financial management and oversees the process of internal and external. This entails providing advice, guidance and support to the Chief Executive in discharging the role of Accounting Officer, and includes challenge to the management team on its interpretation of risk and other information put before the Committee in pursuit of high standards of accountability
- The Audit Committee is authorised by the Board to investigate any matter falling within its terms of reference; this includes the authority to seek any assistance, or information it requires, or attendance, from employees.

3. Audit Committee Members and Officers 2010-11

Members and their experience and qualifications



Bill Samuel was appointed Chairman of the Committee with effect from the July 2010 meeting. He was chief executive of the East of England Regional Development Agency and prior to that was chief executive of Peterborough City Council. He holds a number of non-executive positions and is Deputy Chair of the Thurrock Thames Gateway Development Corporation



Barbara Saunders OBE is an independent consumer consultant with experience of public policy in the UK and European Union. She has held a number of non-executive positions and previously chaired the Financial Services Consumer panel and Insurance Ombudsman Bureau.



David Burton was managing director of West Anglia Great Northern Railway from 1996 -1999.

Principal Officers in attendance upon the Committee

Anthony Smith	Chief Executive and Accounting Officer
Nigel Holden	Resources Director

Officers supporting the Committee

Jon Carter	Head of Business Services
Matt Ayson	Business Services Executive
Shahid Mohammed	Finance Manager

Other Officers

Darren Hall	Internal Audit Manager; Head of Internal Audit, Department for Transport
Nick Bateson	Director, National Audit Office

4. Meetings of the Audit Committee 2011-12

Wednesday 13 April 2011	London
Tuesday 7 June 2011	London
Wednesday 13 July 2011	London
Wednesday 12 October 2011	London
Wednesday 11 January 2012	London

5. Business conducted by the Committee

The Board reviews and provisionally adopts the draft minutes of each Audit Committee meeting as soon as they are available and can be scheduled at a board meeting held in public. The following issues therefore represent **highlights only** of business conducted during the year.

A schedule of **internal audit assignment reports** is appended at annex C; of the reports discussed during the year, only research procurement was regarded as 'weak' and the Committee are satisfied that the causes will be dealt with during the planned replacement of the contract framework. These two reports were discussed in some detail by the committee to ensure that appropriate action was being taken. There were no 'high risk' recommendations made by the Head of Internal Audit in any of his reports. **A quarterly review of year-to-date accounts against budget and forecast features on the agenda of all cyclical meetings.**

	Meeting	Issue	Outcome
5.1	April 2011	AC annual report to Board	The Committee discussed and approved its annual report to the board
5.2	April 2011	Management Assurance Statement	The Committee discussed and endorsed the annual return to DfT
5.3	June 2011	Annual report and accounts	The Committee endorsed the statement on internal control, and the opinions of the Comptroller and Auditor General and Head of Internal Audit, and resolved that the annual report and accounts for 2010-11 be proposed for adoption by the Board of Passenger Focus on 15 June 2011.
5.4	July 2011	Information risk	The Committee noted the appointment by the SIRO of Jon Clay as Information Asset Owner for the Passenger Team, and discussed the future arrangements for FOIA and DPA compliance.
5.5	October 2011	Risk	The Committee took evidence from David Sidebottom, Amy Bradley and Jon Carter regarding team risks for the Passenger, Communications and Chief Executive's teams respectively. Anthony Smith provided an overview of current corporate risks.

	Meeting	Issue	Outcome
5.6	October 2011	Management Assurance Statement	The Committee discussed and endorsed the mid-year return to DfT.
5.7	October 2011	Annual fraud and bribery assessment	The Committee discussed and endorsed the first annual assessment of measures in place to mitigate against the risks of fraud and bribery.
5.8	October 2011	Year-end audit planning	The Committee discussed audit planning proposals from the NAO and satisfied itself on the risks identified, the response to them and the proposed audit plan. The Committee approved a the NAO fee of £22,000, which was unchanged from the previous year.
5.9	October 2011	Business Continuity Plan	The Committee noted the development of the business continuity strategy and plan. The plan was to be rehearsed early in 2012.
5.10	January 2012	Internal audit report: corporate governance and risk audit	The Committee reviewed and discussed the 'substantial' internal audit opinion on Passenger Focus's systems of risk and corporate governance.
5.11	January 2012	Q3 finance report	The Committee noted with some concern the significant financial risks surrounding the cost of the London office.
5.12	January 2012	Risk	The Committee took evidence from Mike Hewitson, Ian Wright and Nigel Holden regarding team risks for the Passenger Issues, Research and Resources teams respectively. Anthony Smith provided an overview of current corporate risks.
5.13	January 2012	Governance Statement	The Committee commented upon the new governance statement which is to replace the SIC in the next annual report and accounts.

6. Risk, governance arrangements and recommendations

Risk

The Committee was pleased to see the roll out of the revised risk management strategy based on its review of risk and governance arrangements in January 2011, and the statement of risk appetite, adopted by Management Team in December 2010, and endorsed by the Board in February 2011.

Governance

The Committee reviewed and discussed the corporate governance and risk audit report in January. The audit opinion was 'substantial'. There were a few low priority management actions the more important of which was an annual review of the Board's effectiveness. The committee agreed this was important. The Committee has therefore spent a little time reflecting on this matter and recommends to the board that it considers the following:

- The diversity (including geographical diversity) and skill mix of the board
- The board's focus and priorities – developing a keener sense of what is important; and,
- Policy formulation – earlier engagement with the board to influence positions adopted

These conclusions are partly extracted from the member survey of April 2012 (summary at annex D) which the board is invited to note. The Committee suggests a note is made of any discussion to capture and deliver any agreed actions and provide an audit trail. The Committee also determined to review its own effectiveness in quarter four of the year, and used the National Audit Office's self-assessment checklist as a tool. A note of this exercise is attached at annex B. The key issues arising from this exercise are:

- The committee is working well and its role and work is proportionate to the size and scope of the organisation
- There is scope to provide a more robust statement on assurance within this annual report (see section 7)
- There is scope to 'firm up' the arrangements for the selection, appointment, training and development of audit committee members.

The Committee's view is that governance arrangements in Passenger Focus continue to be generally sound, and proportionate to the risks facing the organisation. It noted that governance and scrutiny in respect of key areas such as staff terms and conditions, and research / statistical integrity and compliance, were working well under the oversight of the Remuneration Committee and Statistics Governance Group respectively

7. Assurances

The Committee provides the following specific assurances to the Board:

- 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 from management and others it receives
- These assurances are sufficient to support the Board and Accounting Officer in their decisions taken and their accountability obligations
- These assurances take account of the overall management of risk
- The governance statement which the Committee has reviewed and debated represents a true and fair description of the quality and operation of corporate governance arrangements within Passenger Focus.
- The financial reports the Committee reviews quarterly on behalf of the Board appear to provide a fair and reasonable summary of the financial position of Passenger Focus and the quality of financial management
- The Committee is satisfied in respect of the quality and approach of the external and internal auditors, notwithstanding the comments it has made in sections 8 and 9.
- In respect of its specific duty regarding information risk, it continues to receive a regular report which follows the quarterly Information Strategy Group meeting, chaired by the SIRO. The Committee is satisfied that information risk is managed effectively.

Bill Samuel

Chairman, Audit Committee

18 April 2012

8. Internal audit

The Management Statement requires that Passenger Focus has an internal audit function which complies with the Government Internal Audit Standards and that the DfT Audit and Risk Assessment (ARA) Division have access to documents and are able to carry out independent reviews.

The relationship with DfT Audit and Risk Assurance (ARA) has been operating since July 2005. Unlike the NAO, as external auditors, Passenger Focus is free to choose its internal auditors. A 'Chinese wall' operates between ARA and Passenger Focus's sponsorship team.

ARA provides a draft audit plan each year for the Committee to consider and approve. The plan is based primarily on the annual business plan and the priorities indicated by the corporate risk register.

The Committee determined last year that it was time to test the market for internal audit services. Since then, a cross government review has been taking place which has recently taken on the form of an on-line survey for internal audit clients. We await the outcome of this review. In the meantime, the Committee has invited Ian Coates, Head of Audit and Risk Assurance at DfT, to attend its meeting in April with a view to developing clearer options for the future procurement of internal audit services.

9. Statutory Audit – the relationship with the Comptroller and Auditor General (NAO) and the Committee’s opinion on how objectivity and independence is safeguarded.

The relationship between Passenger Focus and NAO is defined by section 9 (1) of schedule 5 to the Railways Act 2005, by which provision the Comptroller and Auditor General must audit the accounts of Passenger Focus, and report to Parliament.

In the autumn, the NAO provides an Audit Strategy for the year setting out a detailed methodology and timetable. This was approved at the January meeting of the Committee. It also provides an indication of fees, which are estimated to be in the region of £22,000 for 2011-12, the same as the previous year.

Whilst the Audit Committee has no remit on the choice of external auditor, it does, pursuant to the best practice suggested within the Combined Code for listed companies, review annually the NAO’s annual report, by way of noting the continuing quality, objectivity, cost and independence of the work of the NAO.

The Committee noted the following in the annual report for 2010-11:

The head of the NAO, the C&AG, is an Officer of the House of Commons.... Our staff are not civil servants and we are independent of government. Our budget is set directly by Parliament. The Public Accounts Commission, a House of Commons committee, sets our budget and appoints our external auditors and scrutinizes our performance.

The Committee also noted that the Public Accounts Committee approved the NAO’s **Strategy for 2011-12 to 2013-14** on 9 November 2010.

CPP 2.3 Audit Committee - Terms of Reference



1. Purpose

- 1.1. The Audit Committee is a committee of the Passenger Focus Board and reports to it after each meeting.
- 1.2. The Audit Committee supports Passenger Focus on all matters relating to corporate governance, financial management and oversees the process of internal and external audit (including the Statement of Internal Control). This entails providing advice, guidance and support to the Chief Executive in discharging the role of Accounting Officer.
- 1.3. The Audit Committee is authorised by the Board to investigate any activities within its Terms of Reference (ToR), including the authority to seek any assistance, or information it requires, or attendance, from employees.

2. Primary responsibilities

- 2.1. To promote the highest standards of propriety and probity in the use of public funds and encourage proper accountability for use of those funds
- 2.2. To provide advice, support and guidance to the Chief Executive and Accounting Officer in discharging his duties through, *inter alia*, the production of an annual forward plan
- 2.3. To select internal auditors and agree internal audit plan and monitor the delivery of actions on outcomes
- 2.4. To review findings of external audit and ensure compliance with agreed actions
- 2.5. To review the statement of internal control and compliance with Board delegation
- 2.6. To review matters of corporate governance, including all corporate policies and procedures, prior to submission to Board for formal approval
- 2.7. To review quarterly outturns against budget and advise the Board on any implications
- 2.8. To review (and if appropriate to comment on) the Statement on Internal Control (before signature by the Accounting Officer) the Annual Report and Accounts (before submission to the Board) and, annually, the accounting policies adopted by Passenger Focus

3. Tasks and Duties

- 3.1. To determine the annual and three year Internal Audit plan and consider Internal Audit reports to ensure cost effective performance and action on agreed recommendations
- 3.2. To review the nature and scope of external audit, consider external audit reports and management letters (and managements response) and agree the external audit fee

CPP 2.3 Audit Committee - Terms of Reference



- 3.3. To report to the Board annually summarising its conclusions from the work it has done during the year based on the template provided at Annex A. The Board may direct that any such report is included within the Passenger Focus Annual Report.
- 3.4. Monitor compliance with the Management Statement and Financial Memorandum.
- 3.5. To advise and oversee risk management by:
- Agreeing and recommending to the Board a risk management strategy and framework, including implementation and reporting.
 - Reviewing the risk register on a quarterly basis, including risk assessment and adequacy of controls in place to manage risks; and
 - Provide assurance to Board in relation to risk management, through a quarterly or biannual risk assurance report to the Board following the meeting at which it was discussed and agreed.
 - Discuss with individual management team members no less than annually the extent to which risks are being managed by the risk owners.
- 3.6. To advise the Board on all financial matters affecting the achievement of the annual business plan.
- 3.7. Ensure the continuing effectiveness of measures in place for effective corporate governance and regulatory compliance, such as corporate policies and procedures, including but not limited to the Membership Code, the Registers of Members Interests and Gifts and Hospitality, and expense claim, anti-fraud and whistle-blowing polices.
- 3.8. Report to Board after each Audit Committee meeting.
- 3.9. The Audit Committee will periodically self-assess its own effectiveness and report to the Board; the committee shall furthermore review these terms of reference annually in April and seek the Boards endorsement of any changes thereto.

4. Meetings

- 4.1. The Audit Committee will meet at least four times per year in January, April, July and October, shortly after the end of the financial quarter. Furthermore, the Chairman of the Audit Committee may convene additional meetings as he considers necessary, and shall convene additional meetings when required so to do by the Board or Accounting Officer
- 4.2. The provisions of sections 5 and 6 of the Passenger Focus *Constitution General* (April 2008) shall have effect.

CPP 2.3 Audit Committee - Terms of Reference



4.3 By resolution, the committee may ask any officer or invitee to withdraw to facilitate open and frank discussion of any particular matter.

5. Membership

5.1. Members of the Audit Committee are appointed triennially by the Passenger Focus Chairman with the endorsement of the Board. For 2011-12, the members are

Bill Samuel	Chairman
David Burton	Board Member
Barbara Saunders	Board Member

The Passenger Focus Chairman may be invited to attend by the Chairman of the Committee.

5.2. The Chief Executive will attend the Audit Committee in his role as Accounting Officer; the Resources Director and Head of Corporate Services will also normally attend.

5.3. The Internal Audit Manager and a Director, National Audit Office, are invited to attend all Audit Committee meetings, and shall have free and confidential access to the Chairman of the Audit Committee between meetings and may request a meeting of the Committee without officers present at any time.

5.4 The Audit Committee may co-opt additional members for a period of not more than three months to provide specialist skills, knowledge and experience and may, subject to the agreement of the Board, procure specialist ad-hoc advice at the expense of Passenger Focus.

Document history

Version	Author	Comments	Approved by	Date
V1	Jon Carter	Original draft	Board, London	23 July 2005
V2	Jon Carter	General update	Board, Edinburgh	13 May 2008
V3	Jon Carter	Membership update and amends following annual report to Board	Board, Manchester	16 May 2011

CPP 2.3 Audit Committee - Terms of Reference



Annex A

Annual Report to the Board

The Committee's annual report to the Board shall include:

- A summary of the role of the audit committee
- The names and qualifications of all members of the audit committee during the period
- The number of audit committee meetings
- A report on the way the audit committee has discharged its responsibilities
- An explanation of how auditor objectivity and independence is safeguarded.

ANNEX B

**Audit Committee self assessment
 Quarter 4 2011-12**

Principle 1: the role of the audit committee

Does the audit committee effectively support the Board and Accounting Officer by reviewing the completeness of assurances and reviewing the reliability and integrity of those assurances?

Number of specific questions in this section	7
Multiplied by 3 committee member responses	21
Number of 'yes' / reasonably qualified 'no' scores	21
Percentage of these scores against total (excl n/a)	100%

Comments

- Significant improvements in audit committee operations have been made since last year's review work
- Further change is not presently necessary

Principle 2: membership, independence, objectivity and understanding

Is the audit committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and their role on the audit committee?

Number of specific questions in this section	19
Multiplied by 3 committee member responses	57
Number of 'yes' / reasonably qualified 'no' scores	35
Percentage of these scores against total (excl n/a)	66%

Comments

- Appointments to the committee would benefit from being more systematic and better documented; this may include, *inter alia*, length of appointment, commitment required and performance review

Principle 3: Skills

Does the audit committee contain or have at its disposal an appropriate mix of skills to perform its functions well?

Number of specific questions in this section	20
Multiplied by 3 committee member responses	60
Number of 'yes' / reasonably qualified 'no' scores	43
Percentage of these scores against total (excl n/a)	89%

Comments

- More recent financial experience on the committee would be of benefit and should be considered in the next recruitment round
- Training could be improved and updated

Principle 4: scope of work

Is the scope of the audit committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer

Number of specific questions in this section	36
Multiplied by 3 committee member responses	108
Number of 'yes' / reasonably qualified 'no' scores	105
Percentage of these scores against total (excl n/a)	98%

Comments

- We should not lose sight of the need to test the market for internal audit services
- Consider the scope for promoting more joined up working between NAO and IA
- It is time to review current delegations
- Use the checklist provided as part of the process for recommending adoption of the annual report and accounts

Principle 5: communication

Does the audit committee engage effectively with financial and performance reporting issues, and with the work of internal and external audit? Does the audit committee communicate effectively with the Accounting Officer, the Board and other stakeholders?

Number of specific questions in this section	9
Multiplied by 3 committee member responses	27
Number of 'yes' / reasonably qualified 'no' scores	23
Percentage of these scores against total (excl n/a)	85%

Comments

- Improve annual report to the board through assurance checklist and greater analysis

The role of the Audit Committee Chairman

Number of specific questions in this section	18
Multiplied by 3 committee member responses	51
Number of 'yes' / reasonably qualified 'no' scores	47
Percentage of these scores against total (excl n/a)	92%

Comments

- Current appraisal arrangements (ie with the Board Chairman) are reasonable and sufficient
- The AC Chairman performs his functions appropriately and consults with members as required. He encourages open discussion on business
- See comments under principle 2
- Attendance is (a) good and (b) documented!

Support to the Audit Committee

Number of specific questions in this section	13
Multiplied by 3 committee member responses	39
Number of 'yes' / reasonably qualified 'no' scores	35
Percentage of these scores against total (excl n/a)	100%

Comments

- Sometimes agreed actions can take a little longer to happen than is desirable!

Annex C

Internal Audit assignments reporting during 2011-12

Reference	Title	Management Team owner	Audit opinion
10/01	Change programme 2010	Anthony Smith	Good
10/04	Effectiveness of research procurement	Ian Wright	Weak
10/05	Financial systems and pensions	Nigel Holden	Acceptable
10/03	External Communications	Amy Bradley	Good
11/03	Corporate Governance and risk Management	Jon Carter	Substantial
11/02	Business planning and performance process	Matt Ayson	Substantial
11/01	Change programme 2011	Nigel Holden	Substantial
11/05	Core controls: project budgeting	Nigel Holden	Reasonable
DAO (GEN) 01/12	Contractual arrangements – senior appointments	Anthony Smith	None

1 represents a LOW or NO score, 5 represents a HIGH or YES score
SA = Strongly Agree A = Agree WE = Whatever DA = Don't agree SD = Strongly disagree

Question	Score & form number								Average	
	1	2	3	4	5	6	7	8		
Service receive from Passenger Focus										
1.1 (Overall Service)	5	5	4	4	5	5	5	5	5	4.75
1.2 (Meeting times)	4	5	5	3	5	2	4	5	5	4.13
1.3 (Advance papers)	3	2	5	5	5	5	5	5	5	4.38
1.4 (Expenses policy)	4	4	5	N/A	5	5	4	5	5	4.57
1.5 (Expenses system)	1	5	3	N/A	5	3	4	3	3	3.43
1.6 (Expenses reimbursement)	4	5	5	N/A	5	3	5	5	5	4.57
1.7 (Hotel quality)	4	4	4	N/A	3	4	4	4	4	3.86
1.8 (Impact of duties)	4	5	5	4	5	4	4	5	5	4.50
1.9 (Ask for training)	4	5	5	4	5	2	4	5	5	4.25
1.10 (Intranet usefulness)	5	3	4	5	3	5	4	4	4	4.13
1.11 (Explanation of policy issues)	4	4	4	5	5	5	5	5	5	4.63
1.12 (Board reports)	5	5	4	4	5	4	5	5	5	4.63
1.13 (Board papers design)	5	5	4	5	5	4	5	5	5	4.75
Relationship with staff										
2.1 (Staff relationship)	4	5	5	N/A	5	5	3	5	5	4.57
2.2 (Helpfulness of staff)	5	5	4	5	5	5	5	5	5	4.88
2.3 (Known by staff)	4	4	4	4	4	5	3	5	5	4.13
2.4 (Common vision)	4	4	4	2	5	4	4	5	5	4.00
The board's role										
3.1 (Passenger Focus performance)	3	4	5	3	4	5	4	5	5	4.13
3.2 (Effectiveness of board governance)	4	4	4	3	5	5	4	4	4	4.13
3.3 (Information to fulfill role)	5	4	5	4	5	5	4	4	4	4.50
3.4 (Balance of board and organisation)	3	3	5	3	4	5	4	4	4	3.88

RAILWAYS ACT 2005 (as amended)
LOCAL TRANSPORT ACT 2008
The Passengers' Council (Non-Railway Functions) Order 2010
Resolution of the Passengers Council (operating as Passenger Focus)

Explanatory Note¹

The law **requires** that Board meetings of Passenger Focus are open to the public, but that the public **must** be excluded where any item of business is confidential. Confidential business is defined as being:

- Business where information provided in confidence to Passenger Focus by the Secretary of State or Office of Rail Regulation would be disclosed.
- Business where information relating to the affairs of an individual or organisation would be disclosed, and where such disclosure would 'seriously and prejudicially' affect their interests
- Business which is, by order, specified as such by the Secretary of State

In addition, the Board of Passenger Focus may, by resolution, and provided that the reason is stated, determine that because of the confidential nature of the item of business, it is in the public interest that the public be excluded during that item. The Board must also take full account of the protection of confidential information provisions in respect of any investigations it has carried out under sections 112E and 112F of the Transport Act 1985 (provisions retro-conferred under the above cited legislation).

In practice, Passenger Focus will always go into private session by resolution, for whatever reason.

Date of Board Meeting	Wednesday 16 May 2012
Venue	Piccadilly Gate, Manchester

RESOLVED

that, pursuant to the legislative provisions governing procedure, members of the public shall be excluded from the meeting for the items set out below having regard to the confidential nature of the business to be transacted:

Agenda Item	Description	Reason for conducting business in private session (if appropriate)
13	Award of 3 year Bus Passenger Survey contract	Comercially confidential: the affairs of an individual or organisations will be disclosed, and such disclosure may 'seriously and prejudicially' affect their interests
Proposed by		
Seconded by		

Signed:

Colin Foxall CBE
Chairman, Passenger Focus

Date

¹ This is a summary of the provisions with respect to the admission of the public to meetings. For full details, please refer to Schedule 5, Part 6 of the Railways Act 2005 (as amended) and the Passengers' Council (Non-Railway Functions) Order 2010