



May 13 BM 9.0

**Audit Committee**  
**Annual report and recommendations to Board**  
**May 2013**

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## 1. Chairman's introduction

I am pleased to submit the Annual Report of the Audit Committee for 2012-13 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 2011-12 in June 2012. 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 was pleased that the formal letter of budget delegation from our sponsor materialised much earlier in this financial year and not nine months into it as in the previous year. We were also pleased to note that with one exception internal audit assignments during the course of the year provided a 'substantial' assurance opinion. The committee was also pleased to note that improved arrangements for agreeing the scope of internal audit assignments were introduced during the year.

The updated risk management strategy (along with the new requirement for heads of team to discuss their risk profiles with the Committee annually) appears to be working well in that it has brought programme and operational risks to life in a way never previously realised.

Having reviewed our own effectiveness during the previous year, and also having expressed some concern about the delays to the appointment of new members, it seems sensible that our recommendations last year in respect of assurance and development stand this year. It will be for the new committee members to take these forward or otherwise as they see fit

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 Matt Ayson. My thanks also go to my colleagues on the Committee (especially Deryk Mead, who has not only kept us quorate but provided valuable input) and to Nick Bateson, Jo Taylor and Helen Jackson at NAO, and to Darren Hall and Belayet Hussein 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 2011-12

### *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. He retired from the board and the committee in July 2012.



**Deryk Mead CBE** was co-opted onto the Committee on David Burton's retirement. Deryk was chief executive of NCH, the leading children's charity, from 1996 to 2004.

*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 (until December 2012)
Shahid Mohammed	Finance Manager

*Other Officers*

Darren Hall	Internal Audit Managers; Head of Internal Audit,
Belayet Hussein	Department for Transport

Nick Bateson	Director, National Audit Office
Helen Jackson	Audit Lead, National Audit Office

**4. Meetings of the Audit Committee 2012-13**

Wednesday 18 April 2012	London
Wednesday 16 May 2012	Manchester
Wednesday 11 July 2012	Swindon
Wednesday 10 October 2012	London
Wednesday 16 January 2013	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 B; of the reports discussed during the year, none were classified as 'weak', two were 'reasonable' and two were 'substantial'. 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.**

	<b>Meeting</b>	<b>Issue</b>	<b>Outcome</b>
5.1	April 2012	AC annual report to Board	The Committee discussed and approved its annual report to the board
5.2	April 2012	Management Assurance Statement	The Committee discussed and reviewed the annual return to DfT
5.3	May 2012	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 2011-12 be proposed for adoption by the Board.
5.4	July 2012	Project framework	The Committee reviewed the re-launch of the project framework and the new performance measures which formed part of it. The key change from previous arrangements was the firm link between project development and financial approval.
5.5	July 2012	Business Continuity	The Committee reviewed the feedback from the recent business continuity plan rehearsal

	<b>Meeting</b>	<b>Issue</b>	<b>Outcome</b>
5.6	October 2012	The effectiveness of internal audit in central government	The Committee discussed the NAO report which focussed on HMT's role in the strategic management, co-ordination and development of the internal audit function. The report reiterated the need for clear direction for the internal audit function across government; the need for clear central co-ordination; skills; and inconsistencies in the balance of work between core controls and risks across functions.
5.7	October 2012	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	January 2013	Preferred supplier list	The committee reviewed the progress on the new preferred supplier list which would go the board for approval in February 2013.
5.10	January 2013	Internal audit report: data sharing with third parties	The Committee reviewed and discussed the 'reasonable internal audit opinion on Passenger Focus's data sharing arrangements with third parties
5.12	January 2013	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 and the progress on an external review which he had commissioned.
5.13	January 2013	Transition costs	The committee reviewed and discussed a report from Nigel Holden on planned and actual transition costs, which showed careful budget management in this area. It is attached to this report for the board to review.

## 6. Risk, governance arrangements and recommendations

### *Embedding of new risk management arrangements*

The committee is pleased with the way that the updated risk management arrangements appear to be working. There should be no let up however in ensuring that they become embedded at all levels of the organisation. Management team has a critical role to play here, but so does the board; the committee **recommends** that the board should continue to review risk management arrangements annually and set risk appetite for strategic, programme and operational risks.

### *Succession planning*

The committee has felt for some time that succession planning arrangements across Passenger Focus were not as far developed as they should be. It was pleased to see therefore that the matter has been escalated to the corporate risk register and **recommends** to the incoming committee that development work in this area is kept under review.

### *Reviewing of the effectiveness of influencing*

It appears to the committee that one area missing from regular review is the effectiveness of the influencing work that so much of the organisation is committed to. A discussion on both the internal audit review of stakeholder management and a review of the communications team risk register at the April meeting of the committee underlined the importance of ensuring this work is as effective as it can be. The committee **recommends** that such a review could helpfully form the basis for an informal workshop, possibly on the day of the June members event – see below.

### *Corporate memory*

One important area that cannot be overlooked for too much longer is the fact that most current members are leaving in July and therefore the opportunities for any transfer of corporate memory are limited. The committee therefore **recommends** that for this reason too the June members event becomes more of an awayday or workshop during which this and other issues can be discussed in an appropriate format.

## 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
- 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

1 May 2013

## 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 and team risk registers.

**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 £21,000 for 2012-13, a reduction of £1,000 over 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 also noted that the Public Accounts Committee approved the NAO’s **Strategy for 2012-13 to 2014-15** in November 2011.

**Annex A: audit committee terms of reference**

**Annex B: internal audit assignments 2012-13**

<b>Planned Assignments</b>	<b>Agreed Timing</b>	<b>Planned Start Date</b>	<b>Date Fieldwork Completed</b>	<b>Date Draft Report Issued</b>	<b>Date Management Response Received</b>	<b>Date Final Report Issued</b>	<b>Number of Agreed Action Points</b>	<b>Audit Opinion Rating (See footnote)</b>
Data sharing with 3 <sup>rd</sup> parties	Q2	17/09/12	15/11/12	29/11/12	14/12/12	17/12/12	5	<b>Reasonable</b>
Passenger Advice Team	Q4	04/12/12	14/12/12	21/12/12	02/01/2013	04/01/13	2	<b>Substantial</b>
Core Controls review: Payroll and Follow Up	Q4	19/02/13	22/03/13	1 <sup>st</sup> - 28/03/13 2 <sup>nd</sup> - 19/04/13	10/04/13	24/04/13	4	<b>Reasonable</b>
Stakeholder Strategy	Q4	11/02/12	05/03/13	15/03/13	22/03/13	22/03/13	3	<b>Substantial</b>