

Minutes

Nov 12 BM 10.0

Audit Committee

Date: Wednesday 10 October 2012

Location: Salisbury Room
St Brides Foundation
St Brides Passage
Salisbury Court
London EC4

Start time: 14.00 hrs

Present

Committee Members

Bill Samuel	BS	Chairman
Barbara Saunders OBE	BSa	
Deryk Mead CBE	DM	

Executive in attendance

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

Guests

Nick Bateson	NB	Director, Transport National Audit Office
Darren Hall	DH	Internal Audit Manager DfT Audit and Risk Assurance Head of Internal Audit, Passenger Focus
Belayet Hussein	BH	Internal Audit Manager DfT Audit and Risk Assurance Head of Internal Audit designate, Passenger Focus

1 Chairmans opening remarks

The Chairman welcomed everyone to the meeting. The Committee had previously held a private session to discuss future composition of the committee, given forthcoming retirements in 2013. JC confirmed new appointments were imminent but outwith his control. A desirable criterion relating to audit committee skills and experience had been included in the board member specification. The committee **agreed** that a potential new committee chair should be appointed in the first tranche of appointments, and a second and third member in the second tranche. BSa would remain on the committee until July 2013 to help provide continuity. Feedback from auditors and some training would be appropriate alongside the January meeting of the committee.

2 Minutes of previous meetings

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

There were no matters arising from the minutes, other than to note that the current situation with respect to complaint handling had been discussed by the board – formally and informally – in September 2012.

3 Action Matrix

All actions were **noted** as ‘complete, delete’ or otherwise covered on the agenda.

4 Q2 finance report

NH introduced the Q2 finance report noting that cost savings on the move to Fleetbank House, the Call Centre contract and press cuttings licences had resulted in favourable underspends of £38,000 on operating costs, £2,000 on NPS and £4,000 on transition costs. The additional revenue stream of £400,000 in respect of the smartcard ticketing project had not yet been profiled as the project had not yet been fully scoped. NH also confirmed the total transition costs of the year to be £460,000 comprising £420,000 for the London office move and related costs and £40,000 for board recruitment. The committee understood the reasons for two office moves in a relatively short space of time, but wished it to be placed on record that it considered better value for money might be obtained in this respect through a more consistent approach to government policy making.

The committee felt that as transitional costs were spread over two years, and that the costs in respect of 2012-13 were shortly to be settled, it would be useful to have a breakdown of the budgeted and actual transitional costs for 2011-12 and 2012-13 at its January meeting.

The Q2 finance report was **noted**.

AC 117	10/10/12	Transition costs	Two year statement of budgeted and actual costs required	NH	Jan 13	
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5 The effectiveness of internal audit in central government

NB introduced the NAO report which focussed on HMT's role in the strategic management, co-ordination and development of the internal audit function. The report focusses on 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. He broadly concurred with Ian Coates view that internal audit across the DfT family, where there is a group approach and a significant amount of core controls work done, is broadly in line with the approach that is highlighted in the report. Notwithstanding the concerns highlighted in the report about the impact of HMT's Internal Audit Transformation Programme this report appears to have energised the initiative. BSa also noted that the report was silent on how small NDPB's such as Passenger Focus should assess value for money when IA services were provided by their parent department. NB commented that this was not the focus on the report, but that follow up work may focus on the quality of individual internal audit functions and their relationships with arm's length bodies. The committee also considered it would be helpful if Ian Coates could attend a further meeting of the committee when the progress of the outcomes of the IATP was better understood. Separately, BS wondered if there was any feedback on Passenger Focus's coordinated response to the NAO's moderated feedback exercise; NB undertook to provide a summary.

AC 118	10/10/12	NAO IA effectiveness report	Feedback required	NB	Oct 12	Complete. Delete.
AC 119	10/10/12	Ian Coates	To attend audit committee in April 2013	DH / BH	Apr 13	

6 Internal Audit progress report

DH reported on the year to date. The data sharing audit was currently in the field but the bus passenger survey audit had not been progressed as the previously identified risks had fundamentally changed. Further to recent discussions one possibility was to reallocate the time to stakeholder engagement in Q4, and bring forward complaints handling to Q3.

BS provided feedback on the morning's discussion on the risk of information provision to industry, and wondered whether days freed up as a result of the BPS change should be allocated to this topic. The committee agreed with JC that the matter should first be discussed at management team – he would then report on further progress in January.

AC 120	10/10/12	Risks of information provision	Take to MT and report back to AC with impact on IA plan	JC	Jan 13	
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7 Q1 Information Risk Report

JC reassured the committee on the subject of data protection in respect of the CRM presentation the board had seen that morning – management information about stakeholder access to and use of Passenger Focus communications was only management information and was not and would not be generally available, neither would be it be made routinely available to board members.

The committee discussed the FOIA and escalated complaint cases this quarter. In respect of the latter, BSa wondered if it was time to declare it vexatious. DS was reluctant to do so yet but agreed it was an option if the case showed no sign of concluding. The Q1 information risk report was **noted**.

8 Corporate risk review

JC updated the committee on the review of corporate risks over the summer, which had recently been the subject of all staff debate at the awayday. The key risks of reputation, resources and allies / competitors may not have been much of a surprise but it was encouraging that staff had been able to examine them so comprehensively. Each risk now needed careful definition and assessment, and they would be brought back to the committee in January 2013. The committee **noted** the review.

9 Team risk: Passenger team

The committee **noted** and **agreed** with the current risk statements in the passenger team risk register, notwithstanding the arithmetic errors which JC undertook to correct. BSa observed that clarity was required on liability for redress and compensation on change of franchise given the extent of the current franchising programme.

10 Team risk: Chief Executives team

The committee **noted** and **agreed** with the current risk statements in the passenger team risk register, noting in particular the delay to the annual board appraisals.

11 Annual fraud and bribery risk assessment

The committee **noted** the annual fraud and bribery risk assessment recently concluded by management team. JC observed it was a useful exercise which prompted managers to check on the sufficiency of arrangements in place. JC confirmed that any suspected fraud would be automatically reported to the committee.

12 Half yearly risk report to board

The committee **asked** JC to draft and circulate a short report on risk based activities for the first half of the year.

AC 121	10/10/12	Half year review of risk	Draft and circulate in time for November Board	JC	Nov 12	
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13 Project framework training feedback

MA provided feedback to the committee (AC 116 refers) on the training he had provided further to the updated project framework, and distributed a summary of evaluation form scores. These showed that the training had been well received and the objectives clearly realised. MA also cross referenced the success of the training to the workshop sessions at the awayday, which had provided tangible evidence of better cross team working and a more targeted and focussed approach to projects. The committee **welcomed** the feedback and **asked** that all new staff involved in projects should participate in similar workshops.

14 Record of projects 2012-13

The committee **welcomed** the regularly updated project record, asking that a comment be included where there may be room for confusion, for example where there was a delay in reporting final project costs, rather than a delay to the end of the project. The committee also noted the current project underspend; AS commented that there may be an opportunity to do more West Coast research early next year, but this would only happen if absolutely necessary.

AC 122	10/10/12	Project record	Update and clarify commentary	MA	Jan 13	
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15 Accounting system upgrade

NH introduced his report on the accounting system upgrade (AC 088/114 refer) in which he concluded that the upgrade could no longer be justified. The 2010 internal audit report recommendations were based upon, among other things, a cross-government chart of accounts that was now unlikely to happen, and multiple funding streams whereas grant in aid continued to be single stream. The only remaining concern was the audit trail for amendments to supplier bank account details which could be realised manually but could not, in itself, in any way justify the expenditure the upgrade would require. The committee were satisfied that the necessary manual checks and balances were or could be put in place and **endorsed** NH's conclusions.

16 Research framework update

The committee **noted** the progress on the new research procurement framework (AC115 refers) and how the preferred supplier list (PSL) would meet the concerns previously identified by internal audit. The committee asked for a further update from Ian Wright at its January meeting.

17 Mid-year management assurance return

The committee **noted** the MY MAR to be returned to DfT.

Minutes

18 Any other business

There being no further business, the meeting closed at 1539 hrs.

Signed as an accurate record of the meeting

Bill Samuel, Chairman

Date

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Board meeting paper	
Nov 12 BM 11.0	
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	14 November 2012
Agenda Item	11.0
Report Title	Audit Committee risk report for Q1 / Q2
Sponsor	Bill Samuel
Author(s)	Jon Carter



1. Summary
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.
2. Recommendations for action
This report is for noting only
3. Serious risk management issues this half year
None identified

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	10/10/12	JC updated the committee on the review of corporate risks over the summer, which had recently been the subject of all staff debate at the awayday. The key risks of reputation, resources and allies / competitors may not have been much of a surprise but it was encouraging that staff had been able to examine them so comprehensively. Each risk now needed careful definition and assessment, and they would be brought back to the committee in January 2013.

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

Team risks: Passenger Team	David Sidebottom	10/10/12	The committee noted and agreed with the current risk statements in the passenger team risk register. It was observed that clarity was required on liability for redress and compensation on change of franchise given the extent of the current franchising programme.
Team risks: CEO Team	Jon Carter	10/10/12	The committee noted and agreed with the current risk statements in the passenger team risk register, noting in particular the delay to the annual board appraisals.

Team risks for Passenger Issues, Communications, Research and Resources Teams will be reviewed in January 2013, and will feature as part of the next report to Board.

Mid year management assurance return to DfT	Jon Carter	10/10/12	The committee endorsed the mid-year management assurance return to DfT
Annual fraud and bribery risk assessment	Jon Carter	10/10/12	The committee noted the annual fraud and bribery risk assessment conducted by Management Team

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 and compliance with the Freedom of Information Act 2000 and the Data Protection Act 1998. The Senior Information Risk Owner (SIRO) (Jon) provides the Committee with a quarterly report.

Q	Date considered	Issues Comments
2	10/10/12	<p>FOIA request: Disclosure of Passenger Focus response to proposals to amend the Routeing Guide in respect of flows between Newark Station to London</p> <p>The committee noted that this request came via whatdotheyknow.com - a site run by MySociety which is all about openness and transparency across government. They actually encourage FOIA requests via this website and publish the answers - along with a view about what the public body have said. We have previously done some work on collaboration with a sister site called fixmytransport.com.</p> <p>We expected some flack on this as it is the answer the applicant wants the least. Anthony has however reviewed the request and the rationale for the excellent response provided by Phil Wilks.whatdotheyknow.com has now published our response.</p>

5. New developments / other issues

The committee were introduced to Mr Belayet Hussain at its October meeting. Belayet is a senior auditor at DfT Audit and Risk Assurance and will soon assume responsibility for Passenger Focus's internal audit programme.

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.