

A photograph showing a blue car and a large red and white truck driving on a multi-lane highway. In the background, there is a large metal bridge structure and a green road sign with white text. The scene is captured from a low angle, emphasizing the scale of the vehicles and infrastructure.



**AUDIT AND RISK ASSURANCE COMMITTEE  
ANNUAL REPORT TO THE BOARD  
MAY 2016**

**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 2015-16 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. This is expected to run to plan although the period of purdah for the EU referendum could cause a delay.

This year has been dominated by responding to and preparing to implement the changes brought about by Spending Review 2015 (SR2015), as well as bedding in the Roads Team. In the coming year we have to take many important decisions on our revenue raising processes, organisational structure and general approach to risk. This makes a second successive year of significant change for the organisation, which brings new and increasing risks across the board. The ARAC has played and will continue to play its part in challenging the Senior Management Team over 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 and internal audit reports along with a detailed review of the project plan. The level of change and activity experienced this year 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 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**

### *Implementation of SR2015*

Getting clarity on the impact of SR2015 proved difficult but this represents only the first phase of this work; the coming year will take us into the more testing phase of implementation. Building on the previous year's high volume of disruption, change and tight budgets will remain the norm for the foreseeable future. The volume of change required will touch all aspects of our work and all teams within the organisation. Creating structures for the management of 'additional' work and income streams will require an unprecedented degree of flexibility of thought and action. This will bring to the fore issues of financial risk, reputational risk, organisational stability and cultural change, in turn placing pressure on staff morale. We should be conscious of the potential effects of change fatigue while exploiting the opportunities presented. The board will need to provide careful oversight to this work and will need to draw heavily on the outputs of the Business Innovation Group (BIG). The ARAC will continue this coming year to liaise with the BIG, especially in pursuing the ARAC's concern that we are timely in identifying if and when we need to buy-in external commercial expertise.

### *Budget Management*

For the year 2016-17 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.

### *Risk Strategy*

The ARAC is conscious that Transport Focus is operating against a risk strategy that is now 5 years old and in particular predates the addition of the Roads Team. The risk strategy is an essential element of planning and good performance management, describing the processes in place to link, identify, assess, address, review and report risks and provide assurance and good governance. The ARAC reviewed the strategy this year and determined that, while still largely relevant, it does require a full update. In particular we are concerned how the strategy feeds through into our agreed risk appetite for strategic, programme and operational risks, which has not been reviewed since 2013. We need to take account of new business models and restructuring in re-assessing the board's appetite to risk as this drives behaviour across the organisation. The ARAC has requested that an updated risk strategy be put to the board towards the end of 2016.

### *Project Management*

Throughout 2015-16 the staff invested considerable effort in improving our capture of project management information. Unfortunately we now realise that the Google Docs software we were using cannot be supported by our IT contracts. This has led to a much more fundamental review of project management processes and data capture and presentation. We are now trialling a revised process using Microsoft Excel which is based around 10 key stages of the project life cycle. It is vital that we have robust processes in place as we now have more simultaneously operational projects than ever before, representing an ever increasing proportion of the budget. The ARAC is concerned that we have been unable to present any useful project information to the board for quite some time and will continue to work with the staff to identify a suitable report format for management, ARAC and the board. The board should begin to see the outcome of this work in mid-2016.

## **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 2014-15*

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 29 June 2015.

### *Management Accounts for 2015-16*

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 'Moderate' internal audit opinion to the Accounting Officer in July 2015.

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 this year to enable the laying of the Annual Report and Accounts before Parliament before the recess. The ARAC have approved the NAO's audit strategy for 2015-16 and agreed the audit fee at £21k (unchanged for the past 3 years). 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 GIAA, created last year, 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 content with the results of internal audits conducted this year. The internal audit programme for 2015-16 is complete and we have been given an overall 'Substantial' grading, which is the highest grade available and reflects the findings of the individual audits, which were:

- Research methods: moderate
- External communications: substantial
- Core controls (pensions): substantial



The substantial grading also took account of a separate DfT audit of the governance of Arms Length Bodies which identified no significant issues for us.

The ARAC has reviewed the corporate risk register quarterly and team risk registers annually. We have encouraged the Roads Team to produce their risk register in first draft and this was reviewed by the ARAC during our first meeting of the 2016-17 financial year. 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 reviewed and agreed the following policies/registers:

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

The Code of Conduct in particular has been significantly amended this year to reflect the addition of the roads remit. Changes were agreed by the board in March 2016. A new process has begun to register gifts and hospitality and this appears to have encouraged staff to be more diligent in completing this register.

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

The ARAC non-executive members have assessed the committee's performance against the HM Treasury 'Good Practice Principles for Audit and Risk Assurance Committees' provided in the Audit and Risk Assurance Committee Handbook. We concluded that the committee is running well but identified areas of concern relating to alternative funding, which have already been raised in this report.

The HM Treasury Handbook also requires the ARAC to review the overall assurance framework for Transport Focus. This was completed in January 2016 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, over the coming year the ARAC will develop an assurance framework in which all of our assurance activities will sit. This will enable us to check that assurance is

comprehensive, consistent and applied at all appropriate levels, but is also relevant to the small size of Transport Focus and the low level of risk we present to the Department.

We will work with management to produce an implementation risk for SR2015 and bring this to the board along with the other risks on the strategic risk register.

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 Treasury and NAO guidance.