

Audit, Risk Assurance and Remuneration Committee

Date: Tuesday 06 June 2017

Location: Fleetbank House, London, Piccadilly Gate, Manchester and by conference call

Start time: 1200 hrs

Present

Committee Members

Marian Lauder MBE

ML

Chairman

Isabel Liu

IL

Bob Linnard

RL

Executive in attendance

Anthony Smith

AS

Chief Executive & Accounting Officer

Nigel Holden

NH

Corporate Services Director

Jon Carter

JC

Head of Business Services

Shahid Mohammed

SM

Finance Manager

Michelle Calvert

MCa

Business Services Executive

Guests

Jola Groves

JG

Audit Principle

National Audit Office

Paula Jones

PJ

Engagement Manager

National Audit Office

Andrew Paterson

AP

Head of Internal Audit, GIAA

1 Chairmans opening remarks

The Chairman welcomed everyone to the meeting. There were apologies for absence from Hazel Philips (HP) and Amelia Robertson (AR).

2 Format and contents of the annual report and accounts for 2016-17

AS introduced the annual report and accounts. The Board had previously seen this document and had submitted comments to HP before this meeting. IL noted that these comments were mostly regarding formatting and so would not directly impact the content. This version therefore is subject to final edits.

The committee reminded itself of the timetable up to the laying of this report before Parliament as follows:

June

6 ARARC meeting consideration

tbc Final version sent to the Board for 'out of meeting' approval on resolution of outstanding issues

July

5 CEO sign off

Document to NAO for C&AG sign off (by bike)

7 Returned from NAO

13 Final document sent to printers

18 Laying in Parliament (Scottish Parliament in recess from 1 July)

The Q4 finance report was presented by NH. He noted the slightly different format of data from last year and the way in which this reads across the annual report and accounts, showing a £17,000 discrepancy on grant in aid, which the NAO had reconciled. IL questioned the narrative in the first section of this report - £765,000 of income should have been shown as expenditure. RL agreed that the way in which the income is set out in this document was potentially misleading. SM is to take these comments into account for 2017-18.

3 Annual internal audit opinion of the Head of Internal Audit

AP introduced the report, he confirmed that the final opinion was **substantial** based on the overall selection of audit assignments (2 substantial, 3 moderate) and other good governance reports and processes during the course of the year. The additional income audit was discussed; minor redrafting of actions arising will be dealt with at the ARARC meeting in July. NAO were content with this.

The annual opinion was **noted**. ML thanked AP for his support and guidance over the course of the year.

4 Audit Completion Report

PJ introduced the report. The audit of the 2016-17 financial statements is substantially complete, but with three outstanding issues which must be resolved prior to approaching the C&AG for certification:

- Remuneration report- pension details from CSP now received and our audit work is complete. A small number of edits are required to the Remuneration Report.
- Severance payments (DfT have approved, awaiting clearance from HMT) (**Note:** if approval is withheld, the C&AG may decide to qualify the accounts.)

- Pay Remit (awaiting DfT retro-approval)

Following resolution of these issues, the Accounting Officer will sign the annual report and accounts together with the letter of representation on a precise date to be agreed between PJ and JC.

Risks (pp 8-10)

Management override of controls

This is a standard presumed risk on all financial audits, in that Management is in a powerful position to perpetrate fraud or introduce misstatements in the accounts, owing to its ability to manipulate accounting records and override controls that may otherwise operate effectively. NAO had reviewed the accounts preparation process which included testing of the year end journals and adjustments. Furthermore sample testing throughout confirmed that the appropriate account codes were used. In conclusion:

- Tests on a sample of journals were made, selected on a risk basis, and found there to be no misstatements or irregularities.
- There were no material accounting estimates or unusual transactions outside the normal course of business.

Recognition of new income

1. Potential for fraud in revenue recognition. There is a presumed risk that the financial statements may be materially misstated owing to fraudulent income recognition. There is a heightened risk this year due to Transport Focus' targeting of new income streams.
2. Full cost recovery. Managing Public Money guidance states that fees should be set to recover full costs to prevent profits at the expense of consumers and losses that would need to be subsidised by the taxpayer.

NAO evaluated the design and implementation of controls over income and found them to be designed and implemented in a way so as to prevent a material misstatement in the accounts. A sample test of additional income was performed and found that income had been stated correctly in the accounts, demonstrating that the control is operating effectively. Testing found no evidence of fraud in revenue recognition and Transport Focus's basis for determining project fees was reviewed, confirming that fees are set on a full cost recovery basis.

Internal control (pp 17-18)

Issues identified

- There were three ex-gratia payments made for staff who left during the year. Approval was not sought in advance from the DfT or HM Treasury.
- We identified three instances where payables were also duplicated as accruals, resulting in an overstatement of both expenditure and accruals.

PJ noted that they are hopeful that the DfT will retrospectively approve the severance payments. These issues however may be delayed due to the upcoming general election.

Recommendations

- Staff Remuneration. Transport Focus should ensure that any ex-gratia payments to staff are approved in line with *Managing Public Money* guidance and the framework under which DfT provide funding, including the Management Statement and Financial Memorandum agreed with DfT and annual grant letters. When using public funds for transactions deemed to be novel or contentious, such as special severance payments, Transport Focus must ensure it has explicit Treasury approval to make those payments.
- Transport Focus should regularly review their accruals and payables listings to ensure there is no duplication.
- Transport Focus should also strengthen controls over receipting so as to prevent duplication.

Letter of representation (pp 22-23)

The letter of representation was standard and available for the Accounting Officer to sign. It was to be dated on the same day the accounts were signed.

The committee **noted** the audit completion report.

5 Significant unadjusted misstatements

PJ confirmed there were no significant unadjusted misstatements which the committee would otherwise have needed to correct.

6 Governance Statement

The committee **endorsed** the governance statement within the annual report and accounts

7 Adoption of the annual report and accounts

Subject to minor typos, the Committee **agreed** the format and contents of the annual report and accounts for 2016-17 and **RESOLVED** to propose to the Board of Transport Focus that the annual report and accounts be **endorsed** and **adopted**.

This recommendation is subject to the resolving of the identified outstanding issues and any further formatting comments.

- 8 The committee expressed its thanks once again to Hazel and Shahid for their outstanding work on the generation of the annual report and accounts, to the audit teams, and to all those who had contributed.

There being no other business the meeting closed at 1230 hrs.

Signed as an accurate record of the meeting

Marian Lauder MBE FCMI, Chairman

Date