

Audit, Risk Assurance and Remuneration Committee

Annual report to
Board

May 2017

**AUDIT RISK ASSURANCE AND REMUNERATION COMMITTEE
ANNUAL REPORT TO THE BOARD
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1. Chairman's Introduction

In accordance with its Terms of Reference, I am pleased to submit this Annual Report of the Audit Risk Assurance and Remuneration Committee (ARARC) for 2016-17 to the board.

This report covers the successful conclusion of the business of the previous financial year, in which we once again 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.

This year has been dominated by implementation of changes brought about by the Spending Review 2015 (SR2015) and planning how to adapt our workplan and structures to meet the significant reduction in grant in aid funding for the coming years. Increasing emphasis has been placed on securing funding through other sources and our quarterly review of the management accounts repeatedly shows this is increasingly successful. However, we should not underestimate the impact this level of change has on our people and, through its recently added remuneration role, the ARARC will closely monitor HR indicators of stress such as the staff survey and sickness absence figures.

The ARARC 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. 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 GIAA. 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 Risk Assurance and Remuneration Committee

2. The Purpose of the Committee

The ARARC is a committee of the Transport Focus Board and reports to the board after each meeting.

The ARARC is governed by its Terms of Reference which include delegations from the board and which were updated in January 2017 to reflect the combining of the previous ARAC with the Remuneration Committee. In essence, the ARARC supports Transport Focus on all matters relating to corporate governance, financial management and significant HR matters 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

Workplan and Budget

This year has been one of significant change for Transport Focus as we continued to implement the changes made necessary by SR2015. Nevertheless, demand for our services, and our appetite to provide them, has not diminished and the coming year sees an ambitious workplan set against an extremely tight budget which suffers from a significant reduction in the grant in aid from the DfT. A tight budget is a familiar cry from previous years but we should be under no illusion that this coming year is especially demanding; unlike previous years there is no financial reserve set aside, the budget is only just balanced and it offers very limited flexibility. Nor should we assume that change is behind us as the lesson from the last few years is that it is a constant for a non-departmental public body such as ours. The workplan and budget provide extremely useful mechanisms to make difficult decisions on priorities, thereby enhancing the board's governance role. Next year the ARARC will continue its quarterly review of management accounts and place particular emphasis on the provision of additional funding.

Rail Passenger Redress Scheme

Despite the recent RDG decision on the Rail Passenger Redress Scheme (RPRS), Transport Focus will still be significantly affected by its implementation. The ARARC looks at this from the perspective of risk on two counts. The first is based on the principal risk in the strategic risk register through which we strive to continue to be useful to government and industry and deliver value for money. Our role in representing what is best for the passenger in the RPRS should therefore not be diminished. The second relates to the impact of RPRS on our own structures, especially in the Contact Team where workloads could be seriously affected. This will require very careful monitoring.

While the ARARC will assist the senior management team in developing an appropriate description of the risk posed by the RPRS, board engagement in identifying the full range of risks will be essential.

Project Management

Throughout 2016-17 the staff invested considerable effort in improving our capture of project management information and regular detailed reports are now provided to the board. The ARARC is concerned that we should not consider this process to be complete as there is scope for further improvement to the way project data is captured and presented. There is also an inherent risk in passing responsibility for this work from one team to another as has recently happened. 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.

Assurance Framework

2017 sees the start of a new DfT assurance process through which sponsor teams are required to provide a 'Sponsor Opinion' offering a consistent and structured way for sponsors to assess the level of confidence they have in the internal controls of delivery bodies. The model is based around 3 'lines of defence' ranging from business operational data through to external audit opinions. The theory is that the opinion will be formed through sources of assurance that are already available and that the process should not require additional work from the delivery body. The ARARC remains a little sceptical about this and will monitor the workload placed on Transport Focus staff very carefully. Our argument is that the level of intrusion should be proportionate to both the risk and the size of the organisation. This is reinforced by recent Cabinet Office guidance which states that "Partnerships work well when departments adopt a proportionate approach to assurance, based on arm's-length bodies' purpose and a mutual understanding of risk". The risk posed by Transport Focus compared to much of the rest of the department is extremely low.

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 2015-16

The business of the last Financial Year was successfully concluded with the submission of the year-end Governance Statement to DfT and the laying of the Annual Report and Accounts before Parliament by the C&AG on 4 July 2016.

Management Assurance for 2016-17

Although final accounts for the year are still in production, 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. The committee has also reviewed and approved the draft Governance Statement for 2016-17.

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 'Substantial' internal audit opinion to the Accounting Officer in July 2016.

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 ARARC 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 ARARC approved the NAO's audit strategy for 2016-17 and agreed the audit fee at £21k (unchanged for the past four 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, which crosses departmental boundaries, is now well established 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 2016-17 is now complete and we have achieved another overall 'Substantial' grading, which is the highest grade available and reflects the findings of the individual audits, which were:

- Information Risk (substantial)
- Roads Remit/Change management (substantial)
- Project Governance (moderate)
- ORR Data Transfer (moderate)
- Additional Income Streams (moderate)

The ARARC has provided input to the updating of the Risk Strategy, which now takes account of new business models and restructuring in re-assessing the board's appetite to risk, which in turn drives behaviour across the organisation. The committee has also reviewed the corporate risk register quarterly and team risk registers annually. We encouraged the Roads Team to produce their risk register in first draft and this was reviewed by the ARARC 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 ARARC 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 ARARC produced the early version of the policy on 'Principles for New Work' and are pleased to see that this has been further developed by the Business Innovation Group and is now proving beneficial across the whole organisation. Very positive reports on its utility have been received from the Insight Team and others.

The ARARC has reviewed and agreed the following policies/registers:

- Whistleblowing policy
- Outside interests
- Gifts and hospitality

Last year and this we have expressed some concern that the gifts and hospitality register is not being completed adequately. Reminders have been included on Connect and we have recommended other changes to improve performance.

5. Remuneration

In its first meeting covering remuneration issues in Jan 17 the ARARC agreed the pay remit for 2016-17 amounting to a 1% uplift in pay, increase in allowances and increase in pay bands. The ARARC also approved the performance related pay scheme for 2017-18.

The committee reviewed the staff absence record and noted the positive comparison with the wider public sector.

6. ARARC Management and Self-Assessment

The ARARC 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.

The HM Treasury Handbook also requires the ARARC to review the overall assurance framework for Transport Focus. This was completed in January 2017 with a review of the terms of reference and cyclical agenda for the committee.