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Audit Risk Assurance and Remuneration Committee

2017-18
Annual Report to the Board

17 July 2018

AUDIT RISK ASSURANCE AND REMUNERATION COMMITTEE
2017-18 ANNUAL REPORT TO THE BOARD
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1. Chair's Introduction

As the Chair from April 2018, I am pleased to submit this Annual Report of the Audit Risk Assurance and Remuneration Committee (ARARC) for 2017-18 to the Board in accordance with the Terms of Reference as of November 2017. This report represents the work of the ARARC under the leadership of my predecessor Marian Lauder MBE. As Chair from February 2013 through the end of the 2017-18 financial year, Marian ensured that the ARARC carried out its expanding responsibilities with clarity, comprehensiveness and pace. Our continuing work is based the high quality foundation she established, along with the ongoing support of Nigel Holden and Jon Carter and our representatives from the National Audit Office (NAO) and Government Internal Audit Agency (GIAA). This has sustained our work amidst changing ARARC membership. I would like to express appreciation for Bob Linnard's contribution from his appointment to the ARARC in June to his retirement from the Board in December, and welcome Arthur Leathley who joined the ARARC in January.

This year we received an unqualified set of accounts from the Comptroller and Auditor General (C&AG), restoring our position from the previous year. The Board approved the 2017-18 Annual Report and Accounts on 12 June and the C&AG signed the audit certificate on 18 June.

This year has been a year of "do more with less," with grant in aid funding from our sponsor DfT cut. We adapted our workplan and resources to the lower funding of 2017-18, while keeping in view similar levels of grant in aid funding anticipated for the 2018-19 financial year. As we bring our uniquely multi-modal skills in championing the interests of the transport user to a variety of channels across Great Britain, we are making good progress on demonstrating value with co-funding from other stakeholders. We will need to do more of this.

We must stay pragmatic and careful in how we push what is essentially the same small resource base we had five years ago – fewer than 50 FTEs. As well as quantitative issues of remuneration and deployment, the ARARC reviews qualitative development and engagement to ensure we retain the talent and passion that make Transport Focus effective.

Adapting nimbly to change and staying true to our mission to make a difference requires constant balancing between ambition and risk assessment. The ARARC has played and will continue to play its part in challenging the Management Team over risks that might affect the operation, financial management or reputation of the

organisation. With the frameworks, processes and people we have working together, we will continue to maintain this balance.

Isabel Liu
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 including delegations from the Board, which was last updated in November 2017 and reviewed by ARARC in January 2018. 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.

The Committee held quarterly meetings in April, July, October 2017 and January 2018. In addition the Committee held a telephone meeting in June 2017 to review and approve the annual report and accounts, the audit completion report by NAO, and the GIAA annual internal audit opinion for the 2016-17 financial year.

All the non-executive members of the Committee attended all ARARC meetings during the period of their ARARC appointment. During the 2017-18 financial year, the non-executive members were:

- Marian Lauder MBE, Chair – Marian is a risk governance consultant. Prior to joining the Board, she chaired Sustrans. Her first career was in the Army, where she led strategy and policy formulation, change programmes and organisational reforms.
- Isabel Liu – Isabel has been a member of the Committee since joining the Board in March 2013. Her career is investing equity in infrastructure in the UK and around the world. She has been a Chief Financial Officer and director at airport companies and holds an MBA from the University of Chicago Booth School of Business.
- Bob Linnard – Bob joined the Board after retiring as a senior civil servant with expertise in transport policy.
- Arthur Leathley – Arthur joined the Board in October 2017 representing London as the Chair of London Travelwatch. His career in communications started as a transport journalist, before moving on to Virgin Trains, Amey, the Cabinet Office and the Department of Energy and Climate Change.

3. Key Issues and Concerns for the Future

Workplan and Budget

This has been a year of "do more with less" – Our aggregate budget is lower, and as we do more, our spending commitments leave us little flexibility. DfT grant in aid, which represents 88% of our budget, was cut by 15% in real terms. We are further demonstrating our multi-modal approach as more of our outputs become accepted as independent industry benchmarks – user surveys of buses, trams, and motorway service areas became embedded this year as annual national projects. The budget implication of this increasing influence is larger amounts of expenditure dedicated to a higher number of specified annual projects, leaving minimal funds to pursue issues that arise during the year or to develop longer-term opportunities.

Ensuring transport users through all the regions of Great Britain can benefit from our work has driven us to secure funding from a diverse range of stakeholders to complement DfT's grant in aid. Separate funding of £1.8 million was achieved, surpassing the budgeted £842,000, both to enhance existing projects such as the National Rail Passenger Survey, and to carry out bespoke projects such as assisting in setting up the Rail Passenger Ombudsman Scheme. This is a notable achievement. We will need to do more of this. This secures funding to cover the costs of those particular projects – no mean feat – but only those particular projects, reducing our flexibility in deploying resources for any other endeavours. In the coming year the ARARC will be looking closely at not only the achievement of budgeted third party funding, but also additional funding which can contribute to Transport Focus generally.

Project Management

The management and staff, Board and ARARC got another year's practice in working together through the cycle of debating workplan and resource priorities; articulating a focussed workplan; and tracking risks and achievements against the workplan, project reporting, and budgets through the year. As part of this, project reporting was further improved this year, including smooth migration of the responsibility from the Business Services team in London to the Corporate Services team in Manchester. The Corporate Services team has also implemented adoption of time recording by all staff, one of the recommendations of the Business & Innovation Group when its efforts were to be integrated into the whole organisation upon its dissolution in June. As a result, our defining workplan objectives, allocating scarce money and time resources to those objectives, and tracking our achievements and risks against them can be viewed more consistently.

Despite these improvements, an underspend of £155,000 (7% of the research and projects budget funded from grant in aid) came to light in the last month of the financial year. This was primarily due to stakeholders not committing to bespoke projects as originally expected. We also had a significant late-stage increase in the cost of our

largest project, the National Rail Passenger Survey. While it is impossible to time perfectly every last pound, these under- and overspends show that the staff, Management Team, ARARC and Board need to use our more comprehensive and streamlined information to interrogate project progress in real time. The establishment of the Business Improvement Team in March 2018 will enable Transport Focus team members from across different functions and projects to assist in the quality control of and derive lessons learned from our endeavours. This active use of our project reporting would not have been possible without the improvements in capturing information from diverse sources made by the Corporate Services team in Manchester and the Business Services team in London earlier.

Rail Passenger Ombudsman Scheme

Following the involvement of Transport Focus as a sponsor at the initial concept stage in December 2016, the Rail Delivery Group (RDG) in April 2017 took over development of the Rail Passenger Ombudsman Scheme (RPOS, also called the Rail Passenger Redress Scheme), promising DfT a launch by October 2017. As of this writing, the launch of the RPOS is still projected as a future event. Transport Focus has moved to a reimbursed advisory role to ensure that passengers are properly signposted to the various appeal channels available to them, and that we can access outcomes to inform our work on behalf of passengers in both appeals handling and policy. 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. The second relates to the impact of the RPOS on our own structures. In particular the Contact Team has already experienced workload pressure, because of both continued erratic TOC performance and complaint handling, and the aim to reduce backlogs to facilitate transition to the RPOS. The Board regularly monitors RPOS, as does the Passenger Contact Group. At the ARARC we continue to monitor the impact through budgets, strategic and team risk registers, and staffing issues.

Information Risks

Our mission as the voice of the transport user means information about transport users is the critical asset of Transport Focus. The Senior Information Risk Officer reports quarterly to ARARC on information risk. Alongside the daily administrative burden of protecting our information assets and responding to information requests from outside parties, preparation for the emerging RPOS and the General Data Protection Regulation (GDPR) which took effect in May 2018 continues to present risks and resource demand in the 2017-18 financial year and beyond.

Assurance Framework

This year the Management Assurance return required to be submitted to DfT changed yet again, adding back complexity. The ARARC remains sceptical about its usefulness. Much of the info requirement is inflexible, not applicable to Transport Focus, and disproportionate to both the size of this organisation and the risk we present to DfT. We receive no feedback from DfT, so remain mystified as to whether and how our submission is used.

4. Assurances

The ARARC 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 2016-17

During the 2016-17 financial year severance payments were made to three members of staff. On the application of DfT on Transport Focus's behalf, Her Majesty's Treasury (HMT) subsequently refused retrospective approval of the severance payments. As a result the C&AG determined that our Annual Report and Accounts for 2016-17 should be qualified. The management actions to ensure future compliance include review and approval by the ARARC and informing the DfT of any staff dismissals including exit payments and terms. The only other issue identified by the NAO was not material. The Annual Report and Accounts were laid before Parliament on 18 July 2017.

Management Assurance for 2017-18

The NAO has completed its audit and submitted to the ARARC its completion report. The NAO recommended to the C&AG that the accounts be certified with an unqualified opinion, subject only to NAO's internal quality control review. The only finding of note was for under- or overstatements which collectively are not material. Review of issues which had arisen in prior years, such as severance payments, gave rise to no comments. The Committee recommended the Annual Report and Accounts for Board approval on 12 June 2018. This was given forthwith and the C&AG signed the audit certificate on 18 June 2018.

Audit and Risk

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. In October 2017 the ARARC approved the NAO's audit strategy for 2017-18 and agreed the audit fee at £24,000 (an increase from £21,000 after five years). As directed by the Combined Code and our Terms of Reference, 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 have an **internal audit** function. This is provided by the GIAA. In April 2017 the ARARC agreed GIAA's internal audit workplan and fee of £20,652 for the 2017-18 year. The GIAA's annual opinion of Transport Focus is 'Moderate', the second highest of four possible opinions, and a decline from the previous year's 'Substantial' opinion. This reflects the findings of the individual audits, which were:

- Stakeholder Engagement – Moderate. GIAA had to re-do this audit following the loss of work papers with the departure of its auditor, re-involving the time of Transport Focus staff and any external stakeholders contacted. This caused GIAA to complete its report in March 2018 rather than the original October 2017, but did not affect the validity of its findings, which Transport Focus accepts.
- Management Accounts – Moderate
- Business Planning – Moderate

The delays in RDG's rollout of the RPOS pushed GIAA's audit of Transport Focus's work on the project into the next financial year. Other areas to be scrutinised in 2018-19 include cybersecurity, including our move to cloud-based IT servers; implementation of the GDPR; and the usual Core Controls.

A major part of the ARARC's **risk assessment** in the round is its review of strategic risk and information risk registers at each quarterly meeting and an annual rota of the team risk registers – Communications, Corporate Services, Transport, CEO, and Insight. From July 2017 the Management Team helpfully streamlined the registers to 1-pagers focussing on actively seeking opportunities as well as reducing risks. Detailed reports have been included in the ARARC Chair's twice-yearly risk reports to the Board.

The ARARC reviewed and approved the annual fraud and bribery risk assessment. The ARARC also reviewed and agreed the following policies/registers:

- Outside interests
- Gifts and hospitality
- Whistleblowing
- Fraud
- Expenses
- Board members' code of conduct

5. Remuneration and Staffing Issues

The 2017-18 pay remit amounted to a 1% uplift in pay, an increase in allowances and an increase in pay bands. This was approved by the ARARC in January 2017, and subsequently paid with effect from April 2017. The 2016-17 Bonus Scheme of spot and annual awards was reported to the ARARC in July 2017. For the 2018-19 financial year, in the absence of pay remit guidance, the ARARC in January 2018 approved for budgeting purposes the pay remit and bonus scheme proposed by the Corporate Services Director. He will submit the proposed pay remit in line with the guidance when issued.

As mentioned above, in 2016-17 Transport Focus made severance payments to three staff members. HMT's subsequent decline of the exit payments led the C&AG to qualify our annual accounts for that year, and specific procedures for ARARC, DfT and HMT approvals have been adopted to handle such cases in future.

The Committee regularly reviews the staff absence record. Generally speaking, the impact of parental leave and medical absences on such a small organisation is significant. In addition, over the years Transport Focus has increasingly relied on contract and interim hires to handle workforce fluctuations and importantly to trial work on emerging opportunities. This flexibility is necessary and commendable, but entails more search, mobilisation, administration and termination costs.

The ARARC regularly reviews the staff profile. Overall gender diversity is medium and ethnic diversity is low. As part of our Equalities action plan, all Transport Focus staff completed refresher training on unconscious bias by December 2017. Expanding the net for our more frequent recruitment for temporary and permanent roles, plus opening internal opportunities to gain experience and advance careers to Transport Focus staff of all backgrounds, will help us benefit from diversity. The Management Team's Contingency Succession Plan reviewed by the ARARC in January 2018 supports this objective: to develop the management skills of staff and to ensure we have credible internal candidates for business-critical posts so that we can continue to deliver key outputs throughout absences.

6. ARARC Management and Self-Assessment

The 2016 HMT publication 'Good Practice Principles for Audit and Risk Assurance Committees' provided in the Audit and Risk Assurance Committee Handbook requires the ARARC to review the overall assurance framework for Transport Focus. This was completed in January 2018 with a review of the terms of reference and cyclical agenda for the Committee.

The NAO provides a suggested checklist for self-assessment. In view of the mid-year turnover in Committee membership, the ARARC decided to defer self-assessment until the membership stabilises in the 2018-19 financial year.