

# MERSEYTRAVEL



## Audit, Risk & Governance Board

### Annual Report 2016/17

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## **Introduction from the Chair of the Audit, Risk & Governance Board**

I am pleased to introduce the first Annual Report of Merseytravel's Audit, Risk & Governance Board, which outlines the Board's activities during 2016/17 and sets out how it meets its Terms of Reference.

The Board was established in January 2016, and provides independent oversight of the effectiveness of Merseytravel's governance framework, considers the adequacy of the organisation's risk management framework, internal control environment, the integrity of the financial statements and the annual governance reporting processes.

I trust that this Annual Report will demonstrate to all of our stakeholders the contribution that the Board has made during 2016/17.

Finally, I would also like to thank all those who have attended and contributed to the Board during the year and those Officers who have supported the work of the Board.

Phil Rule  
Chair  
Merseytravel Audit, Risk & Governance Board

June 2017

## 1. Board Membership 2016/17

1.1 The membership of the Audit, Risk & Governance (ARG) Board is defined in Merseytravel's revised Constitution within its Standing Orders - Meeting Procedure Rules, as follows:

- 2 Merseytravel Executive Directors, and
- 2 Independent Members.

1.2 The Independent Members, the Chair and the Deputy Chair, were appointed via a recruitment process undertaken by Merseytravel, for a term of 3 years. An Executive Director of Merseytravel may not be appointed as Chair or Deputy Chair of the ARG Board.

1.3 If the Chair is absent, the Deputy Chair shall act as the Chair and if the Chair and Deputy Chair are absent, the meeting of the ARG Board cannot proceed. Its matters stand adjourned to an alternative convenient date as soon as possible thereafter. The Chair has a casting vote.

1.4 The membership of the Committee during 2016/17 was as follows:

<b>Member</b>	<b>Role</b>
Phil Rule (Chair)	Independent Member
Paul McNicholas (Vice Chair)	Independent Member
John Fogarty	Director of Resources, Merseytravel
Liz Chandler	Director of Corporate Development, Merseytravel
Secretary to the Board:	
Louise Outram	Head of Legal, Democratic Services & Procurement, Merseytravel

1.5 Other officers also attend ARG Board meetings as follows:

<b>Attendees</b>	<b>Role</b>
Stephanie Donaldson	Head of Internal Audit
Dave Knott	Audit Manager
Sarah Johnston	Head of Finance
Jerri Lewis (or rep)	KPMG (External Auditor)

1.6 Under the current membership arrangements the Executive Directors have a conflict of interest per se and declare this appropriately at each meeting. The Independent Members are of the view that the governance of the ARG Board could be improved, in line with widespread good governance practice, through the appointment of a

third independent member. This view has been highlighted at several ARG Board meetings and referred to Merseytravel for further consideration.

### Attendance of Members at ARG Board Meetings

1.7 ARG Board members have attended the meetings as follows:

Date of Meeting	Members Present
13 June 2017	All
22 August 2017	All
21 November 2017	3 from 4 (Liz Chandler – Apologies)
13 March 2017	All

## 2. The Role of the Board

2.1 The ARG Board was established to oversee the effectiveness of Merseytravel’s governance framework and as such is a key component of its overall governance arrangements. The Board is an important source of assurance on the adequacy of Merseytravel’s arrangements for managing risk, maintaining an effective internal control environment the integrity of the financial and annual governance reporting arrangements.

2.2 The Terms of Reference for the Board are consistent with those defined by the Chartered Institute of Public Finance & Accountancy (CIPFA) <sup>1</sup> and are available at Appendix 1.

## 3 Summary of work undertaken in 2016/17

3.1 The ARG Board held four scheduled meetings during the year. All meetings of the Board were held in private, in accordance with the Meeting procedure Rules, which state that all meetings are private unless the majority of the members present and voting decides otherwise. Copies of the Minutes of the proceedings of the Board are available on the corporate intranet (One Place).

3.2 A summary of specific work undertaken during each meeting of the Board during the year is detailed below:

DATE	DETAILS OF BUSINESS
13 June 2016	<b>Audit</b> <ul style="list-style-type: none"> <li>- Internal Audit - Outturn Report 2015/16</li> <li>- Head of Internal Audit - Annual Report 2015/16</li> <li>- IT Audit Needs Assessment 2016/17</li> <li>- PSIAS<sup>2</sup> Update</li> </ul>

<sup>1</sup> Audit Committees – Practical Guidance for Local Authorities & Police (CIPFA 2013)

<sup>2</sup> Public Sector Internal Audit Standards

	<ul style="list-style-type: none"> <li>- Counter-Fraud Update</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>- Risk Management Update – including PARG Annual Report</li> </ul> <p><b>Governance</b></p> <ul style="list-style-type: none"> <li>- Financial Outturn Report 2015/16</li> <li>- Annual Governance Statement</li> <li>- Delivering Good Governance - Revised Guidance Update</li> <li>- Local (External) Audit Arrangements</li> <li>- ARG Board - Forward Plan</li> </ul>
22 August 2016	<p><b>Audit</b></p> <ul style="list-style-type: none"> <li>- Internal Audit - Quarter 1 Outturn Report &amp; progress update</li> <li>- PSIAS external assessment update</li> <li>- Counter-Fraud Update</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>- Risk Management update and Corporate Risk Register</li> </ul> <p><b>Governance</b></p> <p>Draft 2015/16 pre-audit Financial Statements</p>
21 November 2016	<p><b>Audit</b></p> <ul style="list-style-type: none"> <li>- Internal Audit - Quarter 2 Outturn Report &amp; progress update</li> <li>- Customer Delivery Presentation</li> <li>- PSIAS Update</li> <li>- Internal Audit Charter and Quality Assurance and Improvement Programme (revised)</li> <li>- Appointment of a sponsor for the PSIAS external assessment process</li> <li>- Counter Fraud Update</li> <li>- Fraud Risk Register &amp; Counter Fraud Plan</li> </ul> <p><b>Risk</b></p> <ul style="list-style-type: none"> <li>- Risk Management - Update</li> <li>- Merseytravel Corporate Risk Register - amended</li> <li>- Rolling Stock Presentation - Rolling Stock Project and its approach to risk.</li> </ul> <p><b>Governance</b></p> <ul style="list-style-type: none"> <li>- Merseytravel Code of Corporate Governance - Revised</li> <li>- Local Public Audit Update</li> <li>- Annual Audit Letter 2015/16 - KPMG</li> </ul>
13 March 2017	<p><b>Audit</b></p> <ul style="list-style-type: none"> <li>- Internal Audit - Internal Audit Performance Report (Quarter 3 2016/17)</li> <li>- Merseytravel Internal Audit Plan 2017/18</li> <li>- Merseytravel Internal Audit - Assurance Statements and Recommendation Status (revised)</li> <li>- Merseytravel Internal Audit - Performance Targets 2017/18</li> <li>- External Audit Plan 2016/17</li> </ul> <p><b>Risk</b></p>

	<ul style="list-style-type: none"> <li>- Rolling Stock Risk Management Presentation</li> </ul> <p><b>Governance</b></p> <ul style="list-style-type: none"> <li>- Audit, Risk and Governance Board - Schedule of Dates and Forward Plan</li> <li>- ARG Board Terms of Reference - Review</li> </ul>
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## 4 Key Achievements

4.1 The key achievements of the ARG Board during the year were as follows:

- Providing oversight of internal control, risk management and governance arrangements;
- Maintaining an overview of Merseytravel’s Internal Audit arrangements and monitoring the delivery of the Internal Audit Plan of Work, including the development of “dashboard” performance reporting;
- Consideration of Merseytravel’s governance and risk management arrangements and making suggestions for amendments to the Corporate Risk Register and Risk Management approach.
- Discharging its responsibilities in respect of Merseytravel’s Financial Reporting and Monitoring arrangements, including review of the annual Statement of Accounts; and
- Consideration and review of External Audit Reports and arrangements.

## 5 Priorities for 2017/18

5.1 The key areas of focus for the ARG Board during 2017/18 will be:

- Supporting management in improving the maturity of the Risk Management Framework and quality of the Corporate Risk Register, in line with accepted good practice;
- Monitoring the risk profile of the Rolling Stock project and holding management to account for the effective governance, risk management and controlled delivery of the project;
- Monitoring the compliance of Merseytravel against the Public Sector Internal Audit Standards (PSIAS) and receiving the results of the organisation’s external assessment of compliance;
- Overseeing the appointment of the Authority’s External Auditors in accordance with the requirements of the Local Audit and Accountability Act (2015);
- Completing the Self Assessment of the Board’s effectiveness and identifying any actions and / or development needs for the Board during 2017/18.

## MERSEYTRAVEL ARG BOARD TERMS OF REFERENCE

### Governance, Risk and Control

- To review Merseytravel's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- To review Merseytravel's Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of Merseytravel's framework of governance, risk management and control.
- To consider Merseytravel's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider Merseytravel's framework of assurance and ensure that it adequately addresses the risks and priorities of Merseytravel.
- To monitor the effective development and operation of risk management in Merseytravel.
- To monitor progress in addressing risk related issues reported to this Board.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to Merseytravel from fraud and corruption.
- To monitor the counter fraud strategy, actions and resources.
- To commission work from internal and external audit.

### Internal Audit

- To approve the Internal Audit Charter, Quality Assurance & Improvement Programme and Code of Ethics for Internal Audit.
- To monitor compliance with the Public Sector Internal Audit Standards.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk-based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- i. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
- ii. Regular reports on the results of the Quality Assurance and Improvement Programme.
- iii. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
  - To consider the Head of Internal Audit's Annual Report:
    - i. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
    - ii. The opinion on the overall adequacy and effectiveness of Merseytravel's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
  - To monitor the implementation of Internal Audit Recommendations.
  - To consider summaries of specific internal audit reports as requested.
  - To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to Merseytravel or there are concerns about progress with the implementation of agreed actions.
  - To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
  - To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
  - To support the development of effective communication with the Head of Internal Audit.

### **External Audit**

- To consider the external auditor's plan, report to those charged with governance, annual audit letter and other relevant reports.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial Reporting**

- To review Merseytravel's Accounting Policies

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of Merseytravel (the Executive).
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability Arrangements**

- To report to Merseytravel (the Executive) on the Board's findings conclusions and recommendations concerning the adequacy and effectiveness of Merseytravel's governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
- To report to Merseytravel (the Executive) on a regular basis on the performance of the Audit, Risk & Governance Board in relation to its Terms of Reference and the effectiveness of the Board in meeting its purpose.