



TRANSPORT FOR THE NORTH

Governance – Northern Powerhouse Rail Programme

Internal audit report 6.19/20

FINAL

13 February 2020

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1. EXECUTIVE SUMMARY

Background information

At the request of the Audit and Governance Committee, we have undertaken an advisory review of the governance arrangements relating to the Northern Powerhouse Rail programme. This review has been undertaken as an approved change to the internal audit plan for 2019/20.

Northern Powerhouse Rail (NPR) is a programme designed to deliver a transformed rail network in the North of England and bring new opportunities to millions of people and businesses. The programme is being delivered through a 'co-client' arrangement between Transport for the North (TfN) and the Department for Transport (DfT).

A Memorandum of Understanding (MoU) was agreed in June 2018 between TfN and the DfT, which sets out the nature of the working relationship and the sponsorship arrangements between the two organisations following the establishment of TfN as a statutory body in April 2018. The MoU sets out the respective obligations, principles and working arrangements that underpin the relationship between the two organisations.

A specific NPR Programme Board has also been established, which meets on a monthly basis to oversee delivery of the NPR programme. Membership of the NPR Programme Board comprises relevant members of both TfN and the DfT, as well as other associated parties and stakeholders.

Our review was designed to assess the governance arrangements relating to the NPR programme, including the definition of responsibilities, and the reporting and decision-making processes.

Conclusion

No formal assurance opinion has been provided as part of this review due to the advisory nature of the work undertaken. However, through our work we confirmed that established governance arrangements are in place for the ongoing management and oversight of the NPR programme. This includes arrangements

for programme reporting and decision-making both within the programme itself and within the TfN governance structure.

Whilst established governance arrangements are in place, we noted that improvements and updates are required to some of the documents that support the NPR governance framework. For example, there is currently no up-to-date centrally accessible NPR governance structural chart in place which explains the structure of the NPR programme and describes all the different reporting lines involved.

We recognise that the co-client approach adopted for the NPR programme is a unique model and, as such, changes are continuing to be made to the approach and the supporting processes as the programme develops over time. We also note that the Secretary of State and the DfT are required to approve all funding relating to the NPR programme, which ultimately gives the DfT overriding control of the funding decisions, despite the co-client arrangement.

In addition to the above, we also recognise that management have identified the issues regarding the accuracy and completeness of the NPR governance documentation, and work is currently being undertaken to address this. However, we have included five management actions in this report which are designed to support management with their ongoing work in this area going forward.

In addition to the management actions raised in this report, at section 3 of the report we have also included details of some of the key questions to consider when reviewing the governance arrangements for co-owned projects/programmes.

2. OBSERVATIONS AND MANAGEMENT ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our work and not the outcome of all internal audit work undertaken.

Area: Design of the governance structure

Control / Process	NPR programme governance structural chart		
	During the audit, the TfN Finance Director produced a hand-drawn governance structure document for us in order to explain the structure of the NPR programme and describe the different reporting lines involved. However, there is currently no up-to-date centrally accessible NPR governance structural chart in place for all relevant parties to refer to.		
Findings / Implications	<p>As noted above, changes are continuing to be made to the processes that support the NPR programme as the programme develops over time. We note that copies of high-level governance charts are in place within the NPR Programme Team folders, which describe the structure under the old approach. However, the absence of an up-to-date and centrally accessible document describing the current NPR governance structure could lead to confusion and uncertainty amongst the different parties regarding the programme reporting and decision-making processes. This could ultimately impact on the efficiency and consistency with which decisions are made.</p> <p>We note that TfN and DfT management are currently reviewing the governance structure and the Terms of Reference that support the NPR programme, possibly with a view to developing a RACI chart (Responsible, Accountable, Consulted, Informed) and a supporting Memorandum of Understanding specifically for the programme. However, we have included a management action in this report to help ensure the NPR programme governance structure is clearly defined and documented going forward.</p>		
Management Action 1	A documented governance chart will be developed to reflect the oversight and reporting structure specifically relating to the NPR programme. This will include details of all parties and reporting lines relating to the programme (including those on both the TfN and DfT side of the arrangement). The governance chart will be subject to review and approval by both co-clients before being made available for all relevant parties to access in a central location.	Responsible Owner: NPR Programme Manager	Date: February 2020
TfN management update – 12	A draft Governance MoU has been produced, which contains a governance map encompassing the NPR programme, TfN and the DfT (feedback has been received from TfN officers, including the Finance Director, and contacts at the DfT regarding the MoU). Further to this, a workshop to agree the RACI for the programme took place on 13 November 2019. The output from this workshop, along with comments received on the draft MoU, are reflected in an updated MoU. A revised draft MoU was distributed to the DfT on 22 November 2019, with a		

February 2020	final meeting scheduled for 2 December 2019. However, this was delayed due to unavailability until 17 January 2020. The draft MoU is being presented for approval at TfN OBT on 17 February 2020. The need for this to be taken to the TfN Board on 12 March 2020 for agreement was discussed at the NPR Programme Board on 28 December 2019, and the DfT has been made aware of the TfN governance timelines. The intention is for the MoU to be agreed at the Audit and Governance Committee on 28 February 2020 following review by the NPR Programme Board in January 2020.
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Area: Governance definitions and responsibilities

Control / Process	NPR Programme Board Terms of Reference		
	Documented Terms of Reference are in place for the NPR Programme Board, which set out the responsibilities and accountabilities of the Programme Board. The Terms of Reference received partner endorsement at the NPR Working Group in November 2017, and were then presented to the NPR Programme Board in December 2017.		
Findings / Implications	<p>We confirmed that the Terms of Reference for the NPR Programme Board include high-level information regarding the accountabilities and activities of the Programme Board. However, we noted that the Terms of Reference were out of date in a number of areas. For example, the Terms of Reference make reference to the NPR Client Requirements Group (CRG) (which has now been replaced by the Delivery Group), and the Quad Group (which is no longer relevant following TfN's establishment as a statutory body in April 2018).</p> <p>Furthermore, we note that in some areas the Terms of Reference do not reflect the activities taking place in practice. For example, the Terms of Reference state that the Programme Board will 'undertake programme assurance'. However, under a good practice governance model, we would expect the assurance process to sit outside of the delivery and decision-making process (i.e. to ensure the assurance process is undertaken in an objective and independent manner).</p> <p>In the absence of up-to-date and accurate Terms of Reference for the NPR Programme Board, there is a risk that the role and responsibilities of the Programme Board may not be clearly understood by all relevant parties.</p>		
Management Action 2	Management will review and update the Terms of Reference for the NPR Programme Board to ensure they are accurate and up-to-date. The Terms of Reference will be subject to review and approval by the relevant oversight groups at both TfN and the DfT to ensure that Programme Board responsibilities are fully agreed and understood by all relevant parties.	Responsible Owner: Finance Director	Date: March 2020

**TfN
management
update – 12
February
2020**

As noted previously above, the revised MoU is to be presented to the TfN Board in March 2020. This should address the points identified regarding the accuracy and relevance of the existing NPR Programme Board Terms of Reference.

Area: Governance definitions and responsibilities

**Control /
Process**

Approval of NPR programme expenditure

The overarching MoU between TfN and the DfT (as approved by the TfN Board in June 2018) states that:

'It should be noted that individual joint projects, such as the Northern Powerhouse Rail (NPR) programme and the Integrated and Smart Travel (IST) programme (Smart Ticketing) have their own governance and funding arrangements. However, any and all expenditure that is effected through TfN must comply with the requirements of the TfN Constitution and Scheme of Delegation (irrespective of individual programme governance arrangements).'

In practice, all NPR expenditure is 'drawn-down' by TfN against the approved budget for the year via detailed funding letters which must be submitted to and approved by the DfT (the funding requests are generated by the TfN Finance Team based on expenditure requests submitted by the NPR Programme Team, which are approved in accordance with the Scheme of Delegation).

**Findings /
Implications**

A documented process for the review/approval of TDF (Transport Development Fund) funding was endorsed by the NPR Programme Board in April 2018. Furthermore, it was agreed at the May 2018 NPR Programme Board meeting that commitments for funding could be sought at NPR Programme Board (it was also confirmed that, where this occurs, an e-mail should follow between the two co-Chairs confirming the agreement in writing). It was also agreed at the May 2018 NPR Programme Board meeting that that the TDF quarterly drawdown process should remain in operation.

We recognise that the NPR programme is set up as a co-client arrangement and, as such, the process is designed to ensure that all decisions relating to the programme are made on a joint and equal basis. However, as noted above, the DfT is ultimately responsible for approving the funding claims submitted by TfN.

The Terms of Reference for the NPR Programme Board state that the Programme Board is responsible for: *'Authorising expenditure of the NPR TDF and providing financial oversight and scrutiny of the NPR Programme.'*

From a review of the minutes of NPR Programme Board meetings, we note that reference is made in some of the minutes to the 'approval' of funding requests. However, it is unclear how this Programme Board's approval links to the actual approval process for the drawdown of funding (as authorised by the DfT through their approval of the funding letters).

Through discussions with management, we note that there is a clear understanding within both TfN and the DfT of the funding/drawdown approval process, and this process is being complied with by management. However, the inconsistency between the documented process and the process operating in practice could lead to confusion amongst the different parties regarding the funding approval procedure. As such, we have included a management action in this report relating to this matter.

Management Action 3	Management will ensure that the governance documentation which supports the NPR programme accurately reflects the funding approval process operating in practice. This may be incorporated as part of the RACI and/or NPR programme MoU currently being developed (as described above).	Responsible Owner: Finance Director	Date: March 2020
TfN management update – 12 February 2020	The revised MoU will address the point made regarding the inconsistency between documented processes and processes operating in practice. In all cases, funding drawdown requests from TfN are signed by the TfN Finance Director (as per the Grant Policy) and comply with the funding conditions that apply to the grant. The corresponding departmental approval is signed by the budget holder within DfT.		

Area: Governance definitions and responsibilities

Control / Process	Review of the Memorandum of Understanding between TfN and the DfT		
	The MoU between TfN and the DfT states that: <i>'A light-touch review of this document is carried out annually by the Department and TfN, with a more comprehensive review to be carried out every three years by both parties. However, the Department or TfN may propose amendments to this document at any time.'</i>		
Findings / Implications	The MoU between TfN and the DfT was approved in June 2018, however, management informed us that no annual light touch review of the MoU has been performed to date (as per the stated requirement). If the MoU is not subject to review on an annual basis, this could impact upon the accuracy and relevance of the information contained within the document.		
Management Action 4	Management will ensure that the MoU between TfN and the DfT is subject to an annual 'light touch' review in accordance with the stated requirement.	Responsible Owner: Finance Director	Date: March 2020

**TfN
management
update – 12
February
2020**

This will be undertaken with contacts at the DfT before the end of the current financial year.

Area: Links to TfN budgets and business plans

**Control /
Process**

NPR reporting to the TfN Board

The NPR Programme Board is responsible for reporting and making recommendations to the TfN Executive and Board Members.

**Findings /
Implications**

By reference to papers and minutes from relevant meetings, we confirmed that update reporting has taken place to the TfN Board and the TfN Partnership Board regarding the NPR programme following the establishment of TfN as a statutory body in April 2018. However, the reporting undertaken to date has been primarily driven by the TfN Executive Board, and the information reported has covered a range of areas relating to the NPR programme.

There are no documented standards in terms of reporting NPR programme information to the TfN Board (e.g. in terms of frequency and format of reporting) and, as such, the standards have not been formally defined. Management informed us that this reflects the approach previously used by the organisation prior to TfN being established as a statutory body. However, we were also informed that this is an issue which has been identified by TfN management more widely. As such, plans are currently in place to develop a routine quarterly operational report for presentation to the TfN Board going forward (i.e. similar to that currently used for TfN Operating Board reporting).

We recognise that this is something which management are currently looking to address, however, we have included a management action in this report to help support the introduction of a consistent and routine TfN Board reporting process for the NPR programme updates.

**Management
Action 5**

As already proposed, a routine process will be established for reporting NPR programme updates to the TfN Board. The frequency and content of the reporting requirements will be formally agreed and documented to ensure reporting takes place in a timely and consistent manner going forward.

Responsible Owner:

Finance Director

Date:

December 2019

TfN management update – 12 February 2020	<p>TfN is currently in the process of rolling out a monthly operating report for provision to all of its governance fora, principally the TfN Board. This will contain an NPR section that will include an activity summary, key risks and programme/milestone information.</p> <p>This will provide a monthly commentary and will complement, but not replace, the reporting on specific issues that is provided to the TfN Board or the decision papers that are taken there on an ‘as and when’ basis.</p>
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Area: Links to TfN budgets and business plans

Control / Process	<p>TfN annual business plan and KPIs</p> <p>The TfN business plan for 2019/20 (as approved by the TfN Board in February 2019) includes aims and objectives relating to the NPR programme. Under the current approach, reporting of performance against the KPIs is included in the business plan for the following year, and there is no in-year reporting to the TfN Board of performance against the KPIs (this includes the KPIs relating to the NPR programme).</p>
Findings / Implications	<p>We were informed that this matter has been identified by management and this is something they are proposing to build into the routine reporting to the TfN Board going forward (as previously described above).</p> <p>A management action relating to the reporting of NPR information to the TfN Board is included in reference 5 above. As such, no further management action has been raised here relating to this matter.</p>
TfN management update – 12 February 2020	<p>This item will be addressed as proposed in Management Action 5 above. The proposed report template includes reporting on progress against all of the KPIs included in the 2019/20 Business Plan.</p>

3. GOVERNANCE CONSIDERATIONS

In addition to the management actions raised in this report, we have included details below of some of the key questions to consider when reviewing the governance arrangements for co-owned projects/programmes (this is based on insight provided by our Consulting Team). This is not a complete list of all considerations relating to programme governance arrangements; however, management may wish to consider these questions as part of their ongoing work in relation to the NPR programme governance structure:

Governance infrastructure and co-owned programme considerations

- Are the governance arrangements clearly defined throughout the life of the programme?
- Are key programme governance roles and responsibilities clear and in place (for the programme and for each co-owner)?
- Is there a clearly documented and proven approach to the management of the programme and the authority of the programme management that all co-owners have agreed to and will abide by?
- Is there a documented and agreed process in place for detecting and attempting to deal with sources of conflict, such as attempted domination, changes in co-owners' strategies, risk appetite, performance or ownership and control?
- Is the scheme of delegation under which the programme will be delivered clear, and does it cover the types of decisions the programme may need to make or request?
- Are the governance arrangements reflected in commercial and procurement strategies?
- Are there defined review and approval processes for time, cost, benefits?
- Do the governance arrangements exert sufficient control without introducing unnecessary bureaucracy (from sponsor through to supply chain)?
- Are co-owners and their representatives aware of their individual and other co-owners' corporate governance responsibilities for disclosure, transparency and reporting about the programme?
- Does programme reporting and disclosure provide the information necessary for each co-owner to respond to their organisation's stakeholders who wish to exercise their rights or responsibilities?
- Is there agreement on measurement and reporting criteria for key performance parameters including time, cost, risk benefits, quality and intangibles such as reputation?
- Have the contractual arrangements been scrutinised in each co-owning organisation by senior staff who are independent of the programme and/or an external specialist, for gaps, ambiguities, unrecognised risks and oversights?
- Is there an agreed and effective documented process in place for managing changes to the programme purpose, objectives and scope?
- Is there an explicit listing of risks and opportunities for the programme that includes mitigation strategies and clearly states which risks/impacts are to be carried by each co-owner and which are shared, including the basis of sharing?
- Is the reputational risk for co-owners identified and fully understood by the other co-owners and the programme team?

APPENDIX A: ADDITIONAL INFORMATION

The following table highlights the number of management actions raised as a result of this audit:

Area	Agreed actions
Design of the governance structure	1
Governance definitions and responsibilities	3
Links to TfN budgets and business plans	1
Risk management	0
Total	5

APPENDIX B: SCOPE

Objectives relevant to the scope of the review

The internal audit assignment was scoped in relation to the following objective:

Objective of the area under review

To review the governance arrangements for the delivery of the Northern Powerhouse Rail programme, and make recommendations to improve the efficiency and effectiveness of those arrangements.

Scope of the review

The following areas were considered as part of the review:

Our review was designed to consider the governance arrangements for overseeing delivery of the NPR programme. The following areas were specifically considered as part of our review:

- Design of the governance structure that supports the programme oversight arrangements. This included consideration of the reporting lines used for communicating programme information between the TfN Board and the NPR Programme Board;
- Process definitions and responsibilities in relation to programme governance and decision-making. This included consideration of the clarity with which processes and responsibilities have been defined and communicated to all relevant parties;
- Links between the NPR programme and TfN's budgets and business plans. This included consideration of the way in which funding plans and business objectives/deliverables are co-ordinated between TfN's business plans and the NPR programme, and an assessment of how the funding flows from the DfT to TfN; and
- Risk management procedures within TfN for identifying and mitigating risks relating to the NPR programme. This included consideration of the way in which NPR programme related risks have been reported and assessed in the context of TfN's wider risk profile.

In addition to the above, our work also included specialist input from our Consulting Team regarding the NPR programme governance arrangements.

The following limitations apply to the scope of our work:

- No formal assurance opinion has been provided as part of this review due to the advisory nature of the work undertaken;
- We have not commented on the achievability of the NPR programme objectives, or the objectives included in the TfN business plans;
- Our work only focussed on the risks and governance arrangements relating to the NPR programme. As such, we have not considered TfN's wider risk management or governance processes;
- We have not commented on the methodology or the programme management approach used for the delivery of the NPR programme;
- We have not commented on the appropriateness of individuals in governance positions within TfN, the DfT or the NPR Programme Board;
- We have not commented on the content of reporting provided to the TfN Board, the NPR Programme Board or any other governance groups related to the NPR programme;
- We have not commented on the levels of funding received by TfN for the delivery of the NPR programme;
- Any testing undertaken during the review has been performed on a sample basis only; and
- Our work does not provide absolute assurance that material error, loss or fraud does not exist.

Debrief held	8 November 2019 and 29 November 2019	Internal audit contacts	Lisa Randall, Head of Internal Audit lisa.randall@rsmuk.com 07730 300 309
Draft report issued Responses received	10 December 2019 12 February 2020		Alex Hire, Senior Manager alex.hire@rsmuk.com 07970 641 757
Final report issued	13 February 2020	Client sponsor Distribution	Iain Craven, Finance Director Iain Craven, Finance Director

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

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